

Annual Report 2007



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Kia Motors Corporation- a maker of quality vehicles for the young-at-heart - was founded in 1944 and is Korea's oldest manufacturer of motor vehicles. As part of the Hyundai-Kia Automotive Group, Kia aims to become one of the world's premier automotive brands. More than 1.4 million vehicles a year are produced in 14 manufacturing and assembly operations in eight countries which are then sold and serviced through a network of distributors and dealers covering 165 countries. Kia today has over 33,000 employees and annual revenues of almost US\$17 billion. It is the major sponsor of the Australian Tennis Open and an official worldwide sponsor of the Davis Cup. Kia is an official automotive partner of FIFA - the governing body of the FIFA World Cup - as well as a EUROTOP partner of UEFA. Kia Motors Corporation's brand slogan - "The Power to Surprise" - represents the company's global commitment to surpassing customer expectations through continuous automotive innovation.



This annual report contains performance results, financial data as well as the business outlook and strategies for Kia Motors Corp. The statements herein represent Management's current objective judgment, but Kia Motors' actual results in the future could differ from those presented here. Please understand, therefore, that the accuracy and completeness of forward-looking statements cannot be guaranteed.





2002

Cumulative production reached 10 million units

China plant (Dongfeng Yueda Kia) started mass production

2005

Cumulative exports reached 5 million units

2006

Slovakia plant (Kia Motors Slovakia) started mass production

Groundbreaking of US plant (Kia Motors Manufacturing Georgia)

2007

The second China plant started mass production

Line Up

The Power to Surprise™



Picanto

Colorful Mind

The Picanto is not just a car; it's a fashion statement designed for safety and that special feel. The 1,000cc engine will provide a freedom that is yours alone. It will be love at first sight and the car will continue to grow on you the longer you drive it.



Rio

The Car Powered by Passion

With its ground-hugging stance that hints at agile handling and a sporty personality, Rio cuts an impressive profile that stands out from the competition.



cee'd

Satisfy All Your Senses

cee'd is a car that will challenge your expectations by appealing to all of your senses. The car was born from the innovation of Kia and its power to surprise. Explore your sensory perception with cee'd.



Optima / Magentis

Sensible Solution

You've worked hard. Let yourself know you appreciate it. The Optima has all the features you'd expect in a stylish, sporty sedan with refined ambiance. We've given Optima a sleek new body design and more interior room so you and your passengers can stretch out in comfort and enjoy the ride.



Spectra / Cerato

Life Accelerator

Redesigned inside and out to impress even the most demanding drivers and passengers, the Spectra has everything you want in a compact sedan. With its sportier styling, outstanding fuel efficiency and class-leading interior space, the Spectra expertly blends style and substance.



Amanti / Opirus

Experience the New Kia

The Amanti is a sleek and well-balanced vehicle that looks as good in the VIP parking lot as it does cruising through the city. It boasts the magnificent styling, cutting-edge technology and an extravagant interior. This is the ultimate sedan - the standard to which all other sedans aspire.



Sportage

Designed for Challenge

With its luxurious European styling, the Sportage is the compact SUV of choice. It rides as comfortably and quietly as a sedan and boasts the highest safety performance in its class.



Borrego / Mohave

Absolute Driving

Part of Kia's "less is more" design philosophy, the Borrego produces a pure and functional look for families seeking an SUV for their active and energetic lifestyles. It is as strong and dynamic as its on-road presence, infusing life into your driving experience with its next-generation powertrains. Borrego actively responds to the needs of today's SUV drivers with its high-tech features and new standard of quality.



Sorento

Dynamic Evolution

The Sorento makes towing simple and brings the lakes and mountains closer to you. Bold yet subtle cosmopolitan exterior features will turn heads wherever you go and make your Sorento the center of attention.



Rondo / Carens

Everyday New Space

Completely refurbished with an all-new eye-catching body shell, the Rondo is robust like an SUV and voluminous like an MPV. The car makes a stylish debut with its robust bumper, sophisticated side moldings, and voluminous hood. This creative adaptation of the MPV face with sporty SUV styling cues is complemented by a larger wheelbase for a total package that will stop the competition in its tracks.



Sedona / Carnival

Reliable Multi-Player

Be it a stroll through a meadow or a commute in the city, let Sedona take you there. The image of Sedona is stylish durability packaged in a classy and versatile MPV with an optimum level of luxury and convenience for your driving pleasure.



「Kia will spare no efforts to improve the 'driving lives' of our customers around the globe through continuously challenging the future.」

Amid increasing uncertainties in the global economy, the auto industry also faces a constantly changing environment and an unpredictable road ahead. Under this fiercely competitive backdrop, our top priority is placed on meeting customers' needs faster than our competitors while developing world-class vehicles as we position ourselves to become a true industry leader.

On the basis of our management policy - "A challenge for the future", Kia Motors will enhance its core capabilities in each area including product quality, marketing and brand management. Moreover, we will make our utmost efforts to prepare ourselves in coping with the future to maintain sustainable growth under the uncertain industry circumstances.

In particular, we will do our best to put customers first by providing products and services that they want at the right time, place and price. Furthermore, we will focus on stabilizing global management by establishing effective cooperative networks between our expanding production and sales bases in domestic and overseas markets.

In addition, we will strengthen our marketing strategy to enhance Kia's brand value in advanced markets and expand sales in newly emerging markets. In doing so, we will make all-out efforts to steadily increase qualitative growth in all regions of the world.

Through sound management activities, we look forward to taking a huge leap forward into the future as we continue to cement our status as one of the world's fastest rising car companies.



Mong-Koo Chung

Chairman & CEO

*Greetings to
our valued shareholders,*



The year 2007 was a period in which Kia Motors faced numerous adversities and challenges such as shrinking sales caused by intensified competition at home and abroad. Nevertheless, we were successful in laying the foundation for taking a new leap into the future.

In 2007, Kia Motors recorded 1.114 million units in sales, KRW 15.95 trillion in revenue, KRW 55.4 billion in operating loss, KRW 25 billion in ordinary income and KRW 13.6 billion in net income. Due to sluggish sales, the shrinking domestic RV market and declining export prices, sales revenue fell by 8.6% compared to the previous year, and operating profits also dropped below zero. However, thanks to the strenuous efforts to reduce costs, the operating loss decreased by KRW 69.9 billion compared to the previous year.

Kia Motors failed to reach its target sales and profits due to the worsening domestic and overseas business environment. However, we took it not a risk but as an opportunity to improve the fundamental factors that drive our overall competitiveness such as development of future growth engines and strengthening our corporate structure.

In particular, with rapid stabilization of the Slovakia plant and successful launch of the cee'd, establishment of our European operation's new head office, start of production at Kia's second plant in China and smooth

construction progress of our North American plant in Georgia, USA, we have significantly expanded our global management activities. This far reaching establishment of global production lines and sales networks will allow us to more effectively respond to today's rapidly changing global auto industry.

Backed by sound global quality management, Kia Motors for the first time has entered the top tier of automakers in J.D. Power and Associates' 2007 Initial Quality Study (IQS). By joining the ranks of the top quality leaders, Kia is now presented with a golden opportunity to change the public perception of Kia Motors around the world.

In the domestic market, we responded to market demands last year by strengthening product attractiveness. Moreover, we were able to reap meaningful results under difficult market conditions without any of new models launches in 2007. The Opirus (Amanti) has maintained its top market share position in the large passenger car segment, the Pride (Rio) and Sportage also ranked first in market share in their respective segments, and we have maintained the top position in the KS-SQI (Korean Standards - Service Quality Index) for four years in a row.

In addition, we began to establish a long-term foundation for profitability improvement by launching the

company-wide projects to reform cost structure. We are also driving forward with our design-focused management and brand management strategies to strengthen the unique identity of our products and cultivate an environment where product value is recognized on par with our higher quality.

In 2008, Kia Motors will restructure the ins and outs of its corporate environment and pave the way for achieving sustainable growth by posting a sales turnaround.

To this end, we have placed the establishment of a sales-oriented management system, securing of profitability, and strengthening of core competitiveness at the core of our 2008 management guidelines.

In particular, our top priority will be to improve profitability by expanding sales through the release of numerous long-awaited new models. These vehicles boast differentiated design and improved product competitiveness, and are expected to significantly help enhance profit structure thanks to cost innovation from the conceptual design stage to mass production. Our aggressive new model rollout in 2008 features the upgraded Picanto (Morning) mini car, the Borrego (Mohave) mid-size SUV, refreshed Optima (Magentis/Lotze) mid-size sedan, 'TD' (code name) compact passenger car, and 'AM' (code name) small CUV. The momentum derived from the launch of this slew of new cars is anticipated to help expand sales and improve the brand image of Kia Motors.

Gaining confidence through these opportunities, Kia Motors will reach our goal of selling 1.69 million cars while recording sales revenues of KRW 23 trillion globally in 2008. In line with these targets, we will establish a sound corporate structure to maintain sustainable growth under any circumstances.

Specifically, we will strengthen our efforts to implement company-wide cost structure innovation through activities such as TCI (Technical Cost Innovation) along with quality improvement measures. We will also pave the way for long-term growth by implementing a



design and brand management strategy while continuously enhancing our product development capabilities. At the same time, we will establish a future-oriented corporate culture.

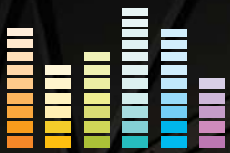
All Kia Motors employees are committed to rewarding your support by reaching our 2008 goals while further strengthening the foundation to build a profitable company.

I wish all of you - our valued shareholders - and your families happiness and good health and also look forward to your continued interest in Kia Motors.

Thank you.

Euisun Chung

President



Kia's design-focused management is just the beginning of shaping a bright future

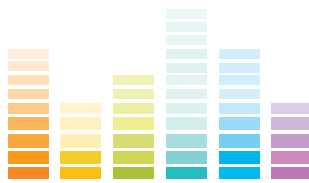
Designing a New Growth Engine

While technology, product quality and price continue to be determining car purchasing factors, design has increasingly become one of the most critical competitive advantages that an automaker can possess. World-class automotive designer, Peter Schreyer (the brainchild of the Audi TT and VW New Beetle), heads Kia's global design initiatives and will give the Kia brand a significant boost by helping to create Kia's global design language.

Kia's four concept vehicles (ex_cee'd, KND-4, Kue, Kee) revealed in 2007 and two 2008 production models (Borrego/Mohave and SOUL) hint at the future styling directions of Kia's lineup.







Kia's design-focused management

All 33,000 Kia family members are designers. Our new growth engines are being designed by their ideas and creativity.

Kia Motors is driving forward with its design-focused management, which pursues change and innovation to find clear solutions for drivers, their lifestyles and their needs. This requires a creative way of thinking.

Our sights are always focused on customer lifestyles with a new mindset and inquisitive perspective. Through looking into their lives, we think about what evokes their emotions. Thinking out of the box, we dream up and create new concepts faster than the competition. We call it "Design."



2004

Opening of new Korea Design Center

2005

Establishment of Global Brand Management Strategy

2006

Appointment of Peter Schreyer as Chief Design Officer

Brand slogan "The Power to Surprise"

Direction of future design
"Simplicity of the straight line"



2007

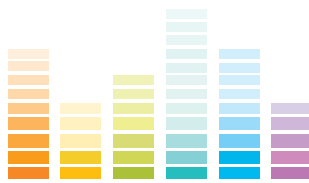
Opening of new European Design Center

2008

Opening of new USA Design Center

Continue to launch new vehicles under Kia's design philosophy

Change into a creative company with design-focused mindset



Interview with Chief Design Officer

Q : Why did you view 'the simplicity of the straight line' as the direction of Kia's future design?

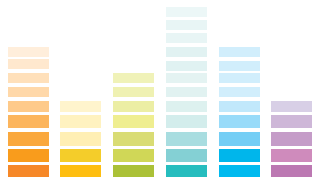
A : 'The simplicity of the straight line' is a very philosophical term. The straight line symbolizes cleanness, perpetuity and honesty. From now on, we must not copy existing models. We require fresh ideas. While we stick to the obvious simplicity, we should make cars that others cannot copy. It's very hard to make extremely new things, however, we will establish Kia's unique, new and consistent future design concept with this philosophy. Kia is now facing challenges and opportunities in terms of elevating the brand. To this end, all Kia employees, from designers who make sketches to workers on the production lines, should head in the same direction and focus all their energies towards it. The future of Kia Motors will be embodied by the design goal of 'the simplicity of the straight line'.



Chief Design Officer
Peter Schreyer

Kia's next phase of brand evolution
will be led by great design





Kia's future design direction - 2008 production models

Mohave

_Absolute Driving

Mohave/Borrego is the first model for mass production using 'the simplicity of the straight line' design philosophy. Like other flagship SUVs, it is a legitimate SUV with power and dynamism. It adopts a rear-wheel-drive frame platform and boasts class-leading engine performance. (Mohave is offered with a 3.8-liter V6 as well as Kia's first 4.6-liter V8 DOHC engine in some markets including North America, the latter producing more than 300-horsepower)



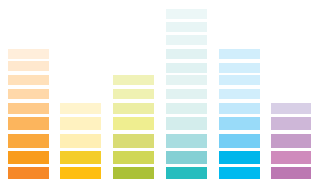


The architecture of the SOUL's stance and wide track is reflective of its sporty, confident character. A wrap-around windshield, muscular wheel flares, stylish front headlamps and a sloped roofline help convey SOUL's athletic appearance, which is geared toward satisfying customers with active lifestyles. The SOUL's exterior exudes an athletic presence, while several design cues lend a svelte, edgy look indicative of today's urban attitude.

A Car that Defies
Classification

SOUL





Kia's future design direction - concept vehicles revealed in 2007



ex_ceed'd

A classic cabrio with a traditional soft-top roof and aggressive, dynamic front styling

With its slight wedge shape profile, muscular extended wings over 19-inch alloy wheels, and aggressive, dynamic front styling, the ex_ceed has instantly found a form that stands out from the cabrio crowd. By adopting a fabric roof, the ex_ceed deliberately goes against the trend towards cabrios with folding metal roofs. Peter Schreyer paid special attention to designing a classic cabrio with a traditional soft-top: "I'm convinced that the fabric roof will have a renaissance. We've all lived with the romantic idea of open-air driving for a long time and for me, metal roofed cabrios are not truly in tune with this emotional conditioning."

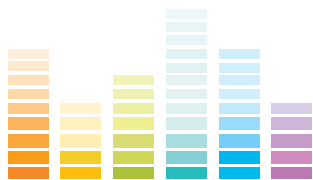


KND-4

_ A new SUV removing the traditional boundaries between urban and rural vehicles

Designed to reassert Kia's credentials as a leading brand in the 4x4 and RV vehicle segments, the new SUV concept car projects a dynamic, powerful character and exudes a strong sense of individuality. The exterior styling of KND-4 is designed to appeal to consumers who crave freedom and an active lifestyle, while removing the traditional boundaries between urban and rural vehicles to create an SUV that looks great in any location.





Kia's future design direction - concept vehicles revealed in 2007

Kee

A new ethos for Kia

This car stands as a clear indication of Kia's design philosophy, an indication of how Kia wishes to be viewed - exciting, appealing, creative, aspirational, with products that are beautiful, yet functional, purposeful and realistic. With its broad stance and low profile, Kee is a new interpretation of the 2+2 coupe, with a simple yet distinctive outline thanks to its long sweeping bonnet, slightly lengthened cabin with striking graphic treatment, sculpted flanks and strong swage lines.



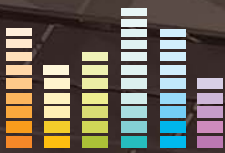


The future Kia direction will incorporate the 'less is more' philosophy but still include a heavy dose of boldness to be distinct. The Kia Kue employs a different approach to the crossover utility vehicle segment by taking elements of what makes a CUV to a new level, namely performance. Kue is designed first and foremost as a driver's vehicle.

While possessing SUV characteristics and capabilities, the Kia Kue focuses more on giving the driver an exhilarating driving experience on the way to the home improvement center than on how much it can haul.

A true reflection of the Kia brand
and the passion it embraces

Kue



Kia's sound global strategy has placed it right on track to achieve its ambitious vision for the future

Building a Solid Growth Engine

Together with Hyundai Motor, Kia is the sixth largest auto manufacturer in the world (*Automotive News*, 25 June 2007). In 2007, Kia's global retail sales were 1.27 million units, which was a 3.6% increase compared to the previous year.

Kia is continuously boosting its overseas manufacturing capability. Mass production began in December 2006 at Kia's state-of-the-art manufacturing facility in Slovakia. Kia's second factory in China began production in October 2007 and allows Kia to better meet the needs of customers in one of Kia's most strategic markets of the future. Kia's plant in Georgia, USA - scheduled for completion in 2009 - will help better support increasing customer demand in the crucial American market.





A step towards victory in the home of the car industry

Kia's U.S. plant is scheduled to begin production in 2009 and expected to produce 300,000 vehicles per year at full capacity. Following construction of the plant, Kia will have the capability to localize all areas of its business in the U.S. - from R&D and production to marketing, sales and after service.

The know-how and experience accumulated from the construction of Hyundai's Alabama plant will contribute to the reduction of investment costs and minimization of trial and error in completing Kia's Georgia plant. In addition, Kia will be able to provide U.S. customers with high quality cars at competitive prices by maximizing synergy effects including supplier sharing with Hyundai Motor Company.

Alongside Kia's second manufacturing plant in China completed at the end of 2007 and the start of production at its first European production facility in Slovakia at the end of 2006, the U.S. plant will play a critical role in boosting Kia's sales and brand development worldwide, bringing the company's total annual overseas production capacity to approximately 1 million units.



Unfolding our wings again in Europe

The Kia Slovakia plant produced the 100,000th cee'd in October 2007 and manufactured a total of 124,000 units of cee'd by the end of the year. This remarkable performance was possible thanks to state-of-the-art production lines and unrivalled productivity levels. The excellent reviews from European media outlets about the quality and marketability of the cee'd family of vehicles has elevated the status of Korean cars in the European market.

In 2007, Kia Motors Europe (KME) moved into a new headquarters complex in Frankfurt, Germany. The new headquarters will accelerate Kia's inroads into the European market. Also, Kia's exclusive design center located within this facility will serve as a focal point of 'design-focused management' that the company is enthusiastically pursuing.



The excellent reviews from European media outlets about the quality and marketability of the cee'd family of vehicles has elevated the status of Korean cars in the European market.



Installing a new growth engine in China

Kia officially opened its second manufacturing facility in China in December 2007. The opening of the US\$800 million state-of-the-art, fully integrated passenger car production facility indicates that expansion plans to boost overseas production capacity to over one million cars by 2009 are on track and represents a pivotal step in the automaker's goal to ensure long-term success in China.

The new plant began producing the upgraded Cerato in October 2007, with the 5-door hatchback version added in December. Kia is also planning to introduce new models for production at the new plant in 2009 and is currently assessing Chinese market trends and conditions before finalizing the next model.



Making broad and significant progress around the world

Kia has shown remarkable sales growth in oil-producing and commodity-rich countries that have benefited from rising oil and raw material prices. In 2007, Kia posted a sales increase of 26% in Central & South America (62,200 units in 2007 and 49,300 units in 2006) and 22% in Africa & Middle East (94,210 units in 2007 and 77,300 units in 2006). Kia also recorded a 32% sales increase in Chile after conclusion of the Korea-Chile FTA (15,712 units in 2007 and 11,884 units in 2006). The sales growth rate reached 133% in Saudi Arabia (9,298 units in 2007 and 3,998 units in 2006).



Kia has shown remarkable sales growth in oil-producing and commodity-rich countries that have benefited from rising oil and raw material prices.





Kia's global commitment is to surpass customer expectations through continuous automotive innovation

Creating a Diverse Growth Platform

Design and R&D facilities located throughout the world allow Kia to produce vehicles tailored toward different regional tastes. Kia is also actively developing state-of-the-art eco-friendly cars for future commercialization. Opened in late 2005, the Eco-Technology Research Institute in Korea is a unique establishment dedicated to spearheading the development of cleaner, greener future transportation compliant with global environmental regulations.

Occupant safety is an absolute priority for Kia and we invest substantially to ensure the highest safety standards throughout our product lineup. Also, the excellent reputation amongst media and our expanding collection of accolades from industry organizations is proof of our commitment to offering world-class quality and customer satisfaction.





Customer satisfaction with an automobile's performance, convenience, safety, and fuel efficiency are crucial factors for Kia.

[GLOBAL R&D NETWORK]

Kia Motors fully assumes its responsibility for researching and developing eco-friendly automobiles that appeal to consumer wants and needs, thereby achieving sustainable growth. Customer satisfaction with an automobile's performance, convenience, safety, and fuel efficiency are crucial factors for Kia. Based on the world's first automotive Eco-Technology Research Institute, we have devised the following four sustainability tasks: development of eco-friendly automobiles, reduction of gas emissions, improvement of fuel efficiency, and expansion of recycling rates.



Hyundai-Kia R&D Center (Namyang)

Location: Hwasung, Gyeonggi, Korea



Eco-Technology Research Institute

Location: Yongin, Gyeonggi, Korea



Hyundai-Kia America Technical Center, Inc.

Location: Superior Township, Michigan, USA



America Design & Technical Center

Location: Irvine, California, USA



California Proving Ground

Location: Mojave Desert, California, USA



European Design and Technical Center

Location: Russelsheim, Germany



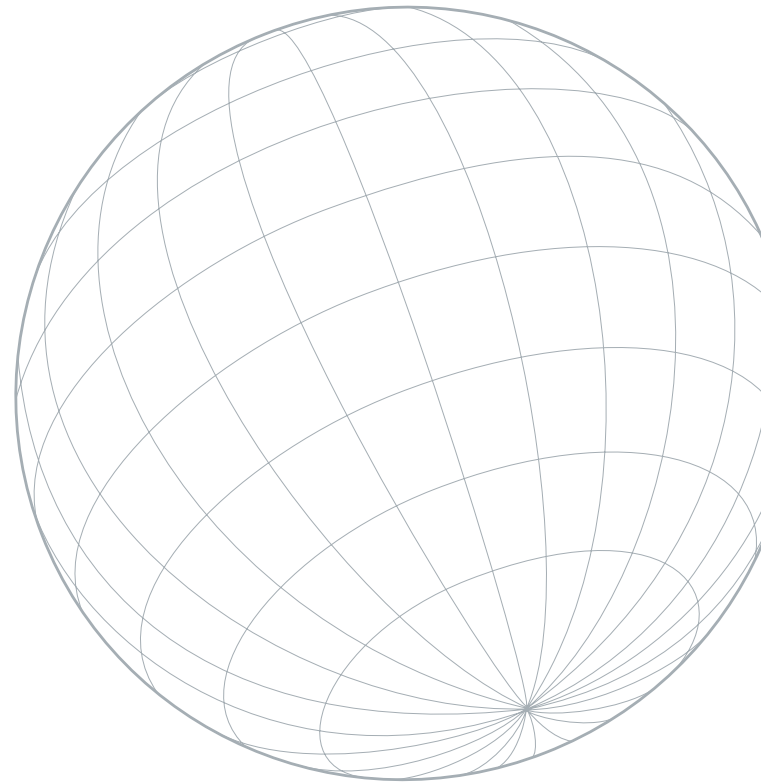
Kia European Design Center (with Kia Motors Europe)

Location: Frankfurt, Germany



Japan R&D Center

Location: Chiba Tokyo, Japan





Kia is actively developing state-of-the-art eco-friendly cars for future commercialization.

[PURSUING GREEN MANAGEMENT]



Kia is striving to create environmentally friendly and fuel efficient models

Kia is actively developing state-of-the-art eco-friendly cars for future commercialization and the Rio hybrid electric vehicle is currently undergoing long-term testing by public institutions. Kia plans to develop mass-production systems for these vehicles by 2010. Meanwhile, Kia's Sportage FCEV (Fuel Cell Electric Vehicle) is currently participating in a fleet trial program funded by the U.S. Department of Energy.

Kia's commitment to creating environmentally friendly and fuel efficient vehicles

eco_ee'd: Kia plans to market 'eco' versions of ee'd models

Kia has confirmed that it will add 'eco' versions of the Kia ee'd model to its product line-up early in 2009. A combination of small but significant modifications to the base vehicle result in much improved fuel consumption (just 3.9 litres/100km, down 17%) and reduced CO2 emissions (just 104 g/km, down 8.4%).

Kia FCEV: all-new platform makes European debut

Kia staged the European Premiere of its latest FCEV platform at the 2007 Frankfurt Motor Show. The all-new 4.6-metre long platform is designed to fit beneath an SUV-style vehicle. Propelled by three electric motors, powered by a 100 kW Fuel Cell and fuelled by twin 76-litre tanks storing hydrogen at 700 bar, the 4x4 FCEV promises real-world usable performance and has the ability to start in extremely cold temperatures (-30C).



A GREAT LEAP FORWARD IN QUALITY



Securing a competitive edge through quality innovation improvements

Eight Kia vehicles (Sedona/Carnival, Rio 4- & 5-door, Spectra 4- & 5-door, Optima/Magentis, Sportage and Sorento) were given The Car Book 2007's "Best Bet" distinction in the USA. Rio and Optima/Magentis were both recipients of the award in 2006. Kia's first car made for and by Europeans, the cee'd was short-listed for the "2008 European Car of the Year" (COTY) award, coming in fourth place and beating out some European favorites in the final vote.

Kia Motors entered the top tier of automakers for the first time in the J.D. Power and Associates 2007 Initial Quality Study (IQS). In 2006, Kia ranked 24 out of 37 brands in initial quality - but now ranks 12th. Among non-premium brands, Kia ranked 15 out of 23 brands in 2006 - and now ranks 6th. Rio has ranked highest in the sub-compact category two years in a row, while the Kia Sedona/Carnival ranked second in the minivan category.





Kia vehicles offer world-class quality and award-winning customer satisfaction. The cee'd was short-listed for the “2008 European Car of the Year”(COTY) award.

FULFILLING CUSTOMERS' DESIRES FOR SAFETY



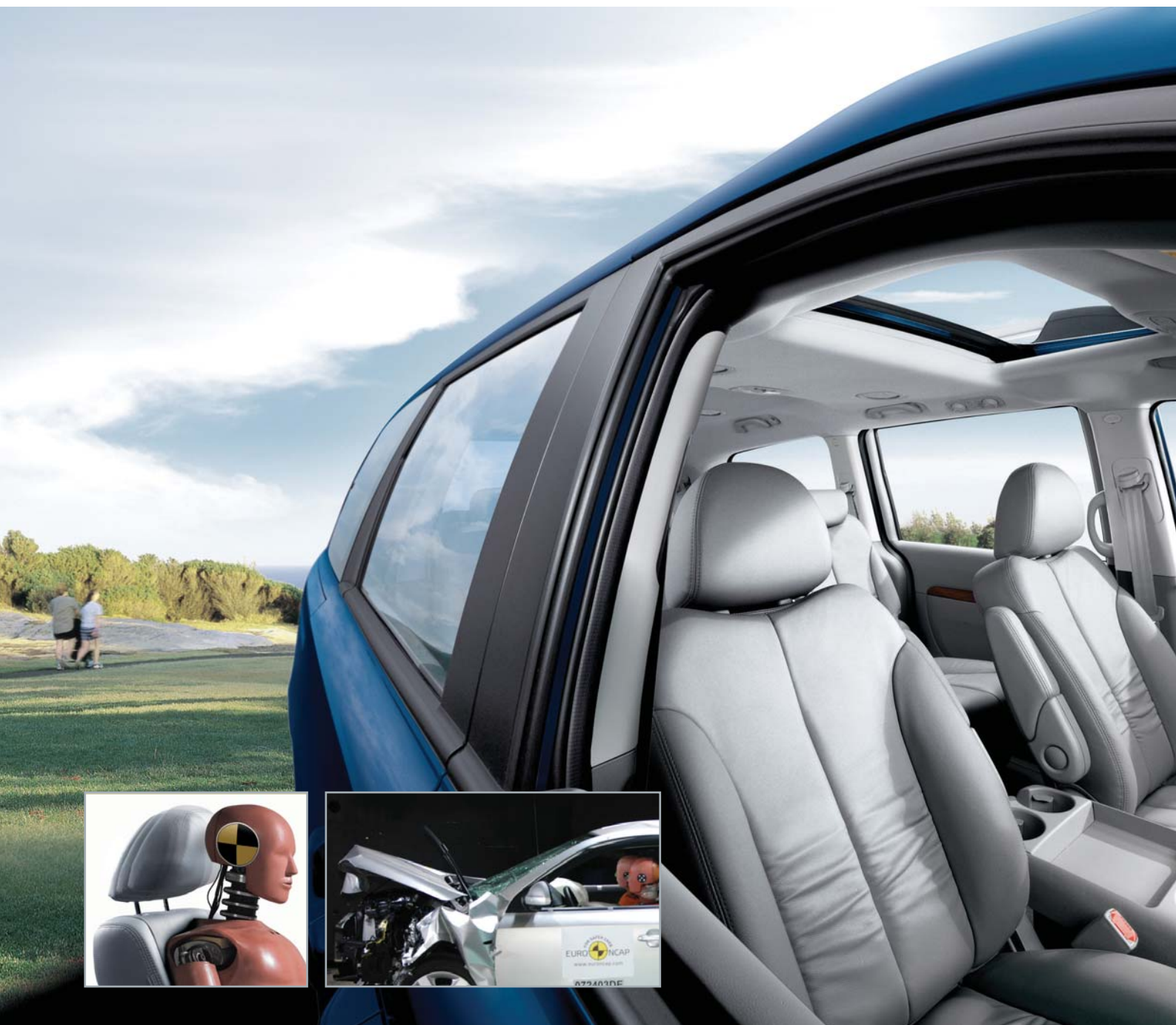
cee'd : 5-Star Safety Rating in Europe

In 2007, the cee'd was awarded a 5-Star safety rating in the Euro NCAP (Euro New Car Assessment Program), making it the first Korean car to ever receive a 5-Star Euro NCAP rating. Kia's safety engineers developed the new cee'd to provide the highest levels of occupant protection in real-world accident scenarios. Our engineers predicted that cee'd would achieve a Euro NCAP 5-Star rating and this result confirms the major engineering advances made by Kia in recent years.

Embracing excellence in safety in the US

The Kia Sedona/Carnival was one of only 34 vehicles to earn the "Top Safety Pick" award from the Insurance Institute for Highway Safety (IIHS) for its impressive performance with top ratings in frontal, side and rear impact crash tests and for having electronic stability control. The IIHS also announced that the Sorento SUV received a "Good" rating for rear impact collisions while the Amanti/Opirus received a "Good" rating in a side impact crash test for large luxury cars. A "Good" is the highest possible rating given by the IIHS.





Occupant safety is an absolute priority for Kia and we invest substantially to ensure the highest safety standards throughout our product lineup.



WINNING CUSTOMERS'

cee'd

Best 'Value-for-Money'

Auto 2007 Innovation Award, Autoweek
(Netherlands) / July

Family Car of the Year

Motorföraren (Sweden) / November

2008 Car of the Year

UZEAR - Romanian (Romania) / November

Car of the Year

Motorpress Canary Association (Canary Islands) / November

Car of the Year 2008

Lithuanian Journalists' Autoclub (Lithuania) / December
Association of the Auto Press in Romania (APAR) / December
Greek motoring journalists association (Greece) / December

Best Hatchback/Best Wagon (Year's Best Awards)

Autobild (Denmark) / December

Best Hatchback (Motoring Oscars 2007)

Daily Express (UK) / December

Sedona / Carnival

Best Minivan

Motor Week (USA) / February

Lifestyle Vehicle of the Year

Driver (New Zealand) / February

Executive Van/MPV of the Year

CAGI (Philippines) / November

2007 People's Choice Award

Carsales Network (Australia) / December

Best Bet

8 Kia Models including Sedona/Carnival
/ The Car Book 2007 (USA) / February

Picanto

Mini Subcompact Car of the Year

Car Awards Group Inc. (Philippines) / November

Sorento

Best All-wheel Drive Vehicle over 1,800 kg

Towcar of the Year 2008 (UK) / September

Rondo / Carens

Compact Van/MPV of the Year

CAGI (Philippines) / November

Spectra / Cerato

Affordable Compact Wagons

U.S. News & World Report (USA) / December



Kia cars offer world-class
quality and award-winning
customer satisfaction.

SATISFACTION AROUND THE GLOBE

Rio

Executive Subcompact Car
of the Year

CAGI (Philippines) / November

Sportage

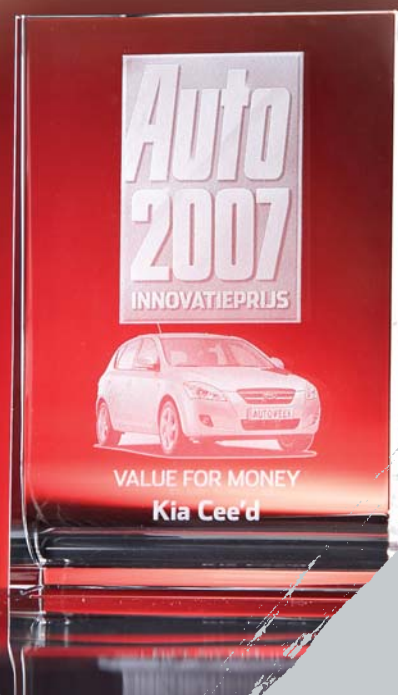
Best in Class SUV

New England Motor Press Association (USA) / March

Kia Motors

Car Company of the Year Award

Driver (New Zealand) / February





DELIVERING BRAND IMAGE

To emphasize Kia's fun and dynamic brand values, Kia is committed to forming lasting partnerships with major global sporting events. The 2008 Australian Open marked Kia's seventh year as a major sponsor of the grand slam tennis tournament, and Kia has extended its sponsorship agreement for another five years, through to 2013. Also, Kia's commercial sponsorship of the Davis Cup, the premier international tennis tournament for teams from different nations, runs through 2008.

Kia, in conjunction with Hyundai Motor, is the official automotive partner of FIFA until 2014. Kia and Hyundai are also UEFA EUROTOP Partners and will be sponsoring the Euro 2008 Championships in Austria/Switzerland. Also, Kia has signed a multi-year deal to become the exclusive

automotive partner of the Chinese national men's and women's football teams.

Kia Motors America recently announced a new multi-year marketing partnership that will see Kia serve as the Official Automotive Partner of the NBA and present a new series of on-court performance awards that include four of the NBA's most prestigious year-end honors. Kia Motors America also has partnerships with 16 NBA teams.

Kia has upgraded its presenting sponsor status of the X Games Asia, one of the world's signature action sports competitions, to title sponsor and the event has been re-branded as 'Kia X Games Asia'.



To emphasize Kia's fun and dynamic brand values, Kia is committed to forming lasting partnerships with major global sporting events.

SENSIBLY THROUGH SPORTS MARKETING



Kia is the major sponsor of the Australian Tennis Open and an official worldwide sponsor of the Davis Cup. It is an official automotive partner of FIFA - the governing body of the FIFA World Cup - as well as a EUROTOP partner of UEFA.





A WORLD IN WHICH EVERYONE

Kia has established and maintained a diverse social contribution system that includes the spreading of transportation safety culture through the 'Easy Move' campaign for the disabled, while employees around the world are involved in various volunteer activities in their local communities.

Sharing transportation safety culture

- Educating children about transportation safety
- Campaign for monitoring speeding in school zones
- Supporting the injured and orphans resulting from traffic accidents

'Easy Move' campaign for the disabled

- Developing and delivering 'Easy Move' Vehicles
- Supporting research on mobility for the vulnerable
- Supporting special shoes and prosthetic devices to persons with special needs

Employee volunteer works

- Disaster relief activities
- Aid services for the marginalized
- Blood donation campaign

Kia Motor's focus: support for youths

- Support for expedition to Lhotse, Himalaya
- Support for global university student work camp




Kia has established and maintained a diverse social contribution system.

MOVES TOGETHER



An aerial, high-angle photograph of a winding asphalt road that hugs a steep, rocky coastline. A red sedan is driving along the road, moving away from the viewer. The road is bordered by a metal guardrail on the cliff side and a rocky shoreline with waves on the other. The scene is captured with a slight motion blur, giving a sense of speed. A semi-transparent dark grey banner is overlaid across the middle of the image, containing the text "Financial Review" in white.

Financial Review



2007 will indeed be an important turning point for Kia Motors as we attempt to secure stable growth for the next decades to come.

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- 058 _ Independent Auditors' Report
- 059 _ Non-Consolidated Balance Sheets
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- 062 _ Non-Consolidated Statements of Appropriation of Retained Earnings
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Management's Discussion & Analysis

Overview of the Korean Automotive Industry

(1) Characteristics

The automotive industry requires a broad industrial base and influences other sectors through upstream and downstream links. The industry can be categorized into three phases: production, distribution, ownership & maintenance. Production involves over 20,000 parts and inputs such as steel, chemicals, nonferrous metals, electrical products, electronics, rubber, glass and plastics. Distribution is carried out by sales subsidiaries, franchise dealers, installment finance companies and shippers. Maintenance issues, in contrast, fall under the realm of repair shops and after sales parts, as well as insurers.

Given its integration with so many other suppliers and related industries, it's not surprising that the industry represents a good chunk of the national economy. As of 2005, the Korean automotive industry generated ₩97.8 trillion in production, up 11.0% year on year; this represents 11.5% of the nation's manufacturing sector. The industry contributes greatly to Korean exports. Some US\$37.3 billion worth of Korean-made automobiles were sold overseas in 2007, an 13.2% increase from a year earlier, representing 10.1% of the nation's export total. With automotive industry employment at around a quarter of a million people (253,000) in 2005, it comprises 8.9% of entire manufacturing sector employment.

(2) Growth Potential

The Korean automotive industry has grown phenomenally through steady expansion of domestic and overseas operations on the back of favorable government policies as well as ceaseless R&D efforts. Exports of the Hyundai Pony, the first indigenous Korean passenger car, began in 1976. Korea has produced an aggregate total of about 54.9 million units between 1976 and 2007, of which 26.8 million units (48.9%) were sold in domestically and 28.1 million units (51.1%) were exported.

After experiencing steady growth, the industry suffered a 50% year-on-year drop in annual sales to some 780,000 units in 1998 because of the Asian financial crisis. The unprecedented event drove the entire industry to the brink of collapse, forcing some automakers to near bankruptcy. However, the subsequent strong recovery of the Korean economy boosted domestic demand for cars. Exports increased rapidly to industrialized countries, even while the Asian and Latin American economies struggled. Thanks to the quick turnaround in sales both at home and abroad, the output of the Korean automotive industry surpassed the 3 million-unit mark in 2000 for the first time. Sluggish global economic growth caused the Korean economy to slow in 2001, putting downward pressure on automobile production. The government launched an economic stimulus package in 2001 and the effects began to be felt the following year. Annual domestic auto sales exceeded the 1.6 million-unit level for the second time in 2001 (the first time was in 1996).

Since 2003, domestic demand for new vehicles has remained stagnant owing to high oil prices, and the aftereffects of the government's economy-boosting policy. The government policy, while effective, had in effect brought forth future demand. On the other hand, automobile exports have recorded remarkable growth, thanks to improved product quality, a better brand image, and the introduction of competitive new models. Total automobile production in 2007 reached a new record for the sixth consecutive year despite sluggish domestic sales. The production in 2007 increased 6.4% to 4.08 million, surpassing 4 million units. This was possible because domestic sales show a sustained recovery and exports are also increasing at a rapid pace. Forecasted growth is projected to continue moving upward in 2008.

The number of vehicles on Korea's roads passed 16.0 million in February of 2007. This represents nearly 16 times growth in the past 22 years, since surpassing the 1 million mark in 1985.

Put differently, the ratio of persons per automobile dropped from 36.6 in 1985 to 3.1 in 2007. The figure is still higher than the 1.3 for the US, 1.7 for Japan, and 1.7 for the EU (2005 data). Recently the number of vehicles on Korea's roads has modestly risen. However analysts expect that over the long-term, this number will continue rising until reaching the levels of the US, Japan, and the EU.

Overseas sales are also expected to continue growing at a steady clip. According to the J.D. Power & Associates, Kia Motors posted improvement in IQS(Initial Quality Study) score, following Hyundai Motor. Its brand value has been steadily enhanced. While overall 2007 automobile industry demand in the US decreased by 2.5% from the previous year, Hyundai and Kia Motors sales increased by 2.9%, thanks to our enhanced product quality and brand image.

In the Western European market, we faced some challenges due to introduction of new models of competitors, but the sales are expected to rise backed by introduction of new models designed particularly for the Europe and sports marketing activities. Sales growth has also been robust in the emerging markets of China, India and Russia. The upward trend in overseas sales is likely to be sustained thanks to not only price competitiveness, a traditional strength, but also rapidly

improving quality, consumer satisfaction, and brand recognition, which was boosted by successful sports marketing activities during the 2002 FIFA World Cup. On balance, the Korean automotive industry still has a strong growth potential.

(3) Cyclical Characteristics

Demand for vehicles is closely related to the economic cycle. When global growth slows, demand for vehicles also tends to slump. This correlation with the economic cycle becomes more visible when penetration rates reach saturation levels. Until 1994, the Korean market was still young and vibrant; demand rose sharply every year regardless of the economic cycle. Since 1995 the market seems to have somewhat matured, exposing automakers to cyclical changes domestic consumption. Given that cars are the most expensive durable good, demand for them usually drops disproportionately, versus other consumer goods, during an economic slowdown. This characteristic was evident during the Asian Financial Crisis of 1998, when domestic auto sales plummeted by 50%.

(4) Competitive factors

Automotive manufacturing requires massive capital, leaving a few automakers to dominate the market in all auto-producing countries. This creates substantial entry barriers for a newcomer. Even with strong financing, it takes a minimum of 4~5 years to produce the first vehicle after the decision has been made to enter the market. Exit barriers are also very high. The automotive industry employs tens of thousands of people and does business with thousands of contractors. There is always extreme reluctance to force insolvent carmakers out of the market, in light of the negative ramifications that such a move would have on the national economy.

The three key factors of competition are product quality, marketing prowess and price. These variables are crucial in strengthening market dominance, curbing costs and enhancing profitability. Superb product quality, the most important factor of all, is the ultimate competitive edge: it maximizes customer satisfaction levels with respect to performance, safety, and design. Strong marketing enhances a carmaker's competitiveness by proactively drawing buyers through the creation of new product concepts, launch of new models, aggressive advertising, and establishment of sales and after-sales service network. The concept of cost competitiveness encompasses new model development, mass production efficiency, indirect workforce productivity and financing; it affects both sales price competitiveness and profitability.

The relative significance of these three factors of competition changes with the business environment. During an economic boom, automakers tend to pursue added value by focusing on improving product quality. During slow downs, car makers are inclined to make up for lost profitability through cost competitiveness and greater marketing efforts.

(5) Characteristics related to Securing Resources

Automobile manufacturers need to maintain a steady inflow of raw and secondary materials, including steel and more than 20,000 parts and components to keep their assembly lines running smoothly. Automotive steel in Korea is supplied by POSCO, the world's biggest steelmaker, and Hyundai Hysco, an affiliate of the Hyundai Automotive Group. Auto parts and components are classified into three categories: made in plant (MIP), local parts (LP), and knocked down (KD) parts. MIP parts, produced by automakers themselves, include engines, transmissions, and various cast and forged parts, and account for about 45% of total material costs. Parts made by local manufacturers include brakes, tires, glass, electric and electronic system components, rubber and plastic, and account for some 55% of total material costs. KD parts are imported from abroad. Currently, Korean automakers import a negligible number of KD parts - only in rare instances in which local production is not economically viable. The proportion of KD parts steadily declined once Hyundai Motor localized 100% of the parts and components for its Accent model.

Recently, "modulization" in the auto industry has further improved the efficiency of our industry. Unlike the conventional practice of supplying parts and components individually, suppliers assemble various components into modules and supply them to the final auto assembly plants. "Modulization" thus reduces the number of parts that are delivered as well as the time it takes to assemble new cars.

(6) Related Laws and Government Regulations

Various laws and regulations are in force with regard to areas such as vehicle safety, environmental protection, and taxation. Both Korean and international automobile laws and regulations are regularly revised to protect consumers and increase automakers' accountability. In Korea for example, a product liability law went into effect on July 1, 2002, and from January of 2003 the approval system was replaced by a self-certification regime.

Management's Discussion & Analysis

There are a number of automobile-related taxes in Korea. At the time of purchase, consumers need to pay a special consumption tax, education tax, VAT and registration tax. Consumers also have to pay an acquisition tax and are required to buy government bonds. All car owners must pay automotive and education taxes. At the same time, gasoline and diesel prices include four indirect taxes covering transportation, education, roads and VAT. In the wake of the Asian financial crisis, some of these taxes were exempted or reduced in an attempt to boost domestic consumption, but more fuel-related taxes were imposed to raise funds for education, to recoup local tax revenue lost from car taxes and to finance funds related to road traffic. In addition to this, automobile emissions are regulated to help keep the air clean.

Automotive-related laws and regulations differ by country, but the overall trend is toward strengthening environmental and safety rules. In the United States, the federal government sets the legally permissible levels of automobile emissions, and some states including California enforce their own additional emission standards. Both the Tier II(Federal Regulations) and the LEV II(California's Regulation) regulations began their phase-in from 2004, which are stricter than Tier I and LEV I. The EU is also tightening its emission regulations. The Euro I emission standards were introduced in 1992 (in 1994 for diesel-powered vehicles) and the tougher Euro IV standard went into effect in 2005. As for gasoline vehicles in the Euro IV standard, carbon monoxide emissions is tightened to less than one third, hydrocarbons and nitrogen oxides is restricted to less than one fifth and particulate matter of diesel-powered vehicles is limited to one sixth of Euro I standard. Along with these, many regulations to reduce green house gas emission and enhance car efficiency are implemented in the wake of global warming.

The 2007 new regulation can be summarized into realization and self-regulation in terms of tax and insurance and into reinforcement of environment and safety standard. In 2007, registration tax and automotive tax of 7 to 10-seater passenger cars increased, insurance fees are degraded according to each model, and discount rate of insurance fee will be self regulated in accordance with the period of accident-free driving. Therefore, burdens of customers toward taxes and insurance fees will be increased or reduced according to cars and insurance companies. Meanwhile, environmental standards including emission standards will be strengthened and pedestrian safety will be added to car safety test lists. All of these will put more burdens on the auto industry.

Sales Status

• 2007 Sales Overview

| | 2006 | 2007 | Change |
|-----------------|------------|-----------|---------|
| | (Units, %) | | |
| Sales Volume | 1,258,851 | 1,359,956 | 8.0% |
| Korea Plants | 1,140,734 | 1,114,451 | -2.3% |
| Domestic | 269,575 | 271,809 | 0.8% |
| Export | 871,159 | 842,642 | -3.3% |
| Overseas Plants | 118,117 | 245,505 | 107.8% |
| China | 115,009 | 101,427 | -11.8% |
| Slovakia | 3,108 | 144,078 | 4535.7% |

* Figures based on Shipment and Revenue

Domestic Sales

Korea's 2007 domestic car sales reached 1,262,739 units, a 7.1% increase (83,353 units ↑) over 2006 despite a fewer release of new cars among Korea auto manufacturers. It was possible thanks to aggressive sales strategies of imported cars and steady growth in the Korean market.

Sales in the passenger car market has increased by 8.5% (58,407 units ↑) showing the highest growth rate, while 6.7%(17,657 units ↑) in RV market and 3.2%(7,289 units ↑) in the commercial vehicle market.

(Units, %)

| Segment | 2006 | | | 2007 | | | | |
|------------|-----------------|---------|-------|-----------------|--------|---------|-------|--------|
| | Domestic Market | Kia | M/S | Domestic Market | change | Kia | M/S | change |
| PCs | 689,617 | 115,575 | 16.8% | 748,024 | 8.5% | 122,878 | 16.4% | -0.3%p |
| RVs | 264,404 | 97,489 | 36.9% | 282,061 | 6.7% | 95,479 | 33.9% | -3.0%p |
| Commercial | 225,365 | 43,775 | 19.4% | 232,654 | 3.2% | 45,107 | 19.4% | 0.0%p |
| Total | 1,179,386 | 256,839 | 21.8% | 1,262,739 | 7.1% | 263,464 | 20.9% | -0.9%p |

* Based on KAMA new registrations data; there may be slight differences with the company's data

Kia Motors' sales edged up by 2.6%(6,625 units ↑) below 7.1%, the growth rate of domestic auto market. Passenger car sales rose by 6.3%(7,303 units ↑) thanks to brisk sales of Morning(Picanto), Pride(Rio), Opirus(Amanti) and commercial vehicle sales inched up by 3.0%(1,332 units ↑) while RV sales was stagnant, with -2.1%(2,010 units ↓). As a result, Kia's 2007 market share fell by 0.9% point.

However, Kia succeeded in market defense despite competitors' aggressive sales marketing activity and disadvantageous conditions where no new model was released. This was the result of our efforts to let the world know that Kia's six types of vehicles ranked first in terms of domestic market share in each segment and eight types of vehicles were selected as The Car Book 2007's "Best Bet" distinction in U.S.

Kia implemented sports marketing by hosting 'Kia Australian Open Festival' and provided vehicles for sports stars to enhance brand image. Kia continued the culture marketing by holding "Opirus Culture Events" and sponsoring "Pusan International Film Festival (Piff)". Additionally, Kia worked hard to boost customer satisfaction. Kia initiated "Q members", a new membership service, for the first time in Korea, and held an event to provide vehicles to customers paying visit to their hometown during the Chuseok holiday and supported vehicle community and implemented "Before Service" to serve customers first. Kia Motors was ranked in the first place in the KS-SQI (Korean Standards - Service Quality Index) for four years in a row.

Kia is committed to realizing harmonious society by participating voluntary activities including "School Zone Campaign", international aid for poor children and "Spare Change from Wages Campaign" to take corporate social responsibility.

• Market Share per Company (Domestic)

(Units, %)

| | 2005 | | 2006 | | 2007 | | Particulars |
|-----------------|-----------|--------|-----------|--------|-----------|--------|---------------|
| | Sales | M/S | Sales | M/S | Sales | M/S | |
| Kia | 257,414 | 22.4% | 256,839 | 21.8% | 263,464 | 20.9% | |
| Hyundai | 554,282 | 48.3% | 569,441 | 48.3% | 618,811 | 49.0% | |
| GM-Daewoo | 108,935 | 9.5% | 131,627 | 11.2% | 139,337 | 11.0% | |
| Ssangyong | 74,529 | 6.5% | 56,551 | 4.8% | 59,229 | 4.7% | |
| Renault-Samsung | 114,510 | 10.0% | 114,523 | 9.7% | 116,990 | 9.3% | |
| Others | 37,979 | 3.3% | 50,405 | 4.3% | 64,908 | 5.1% | Imports, etc. |
| Total | 1,147,649 | 100.0% | 1,179,386 | 100.0% | 1,262,739 | 100.0% | |

* Based on KAMA new registrations data; there may be slight differences with the company's data

Management's Discussion & Analysis

• Market Share per Company & Segment (Doestic, 2007)

(Units, %)

| | PCs | | RVs | | Commercial | | Particulars |
|-----------------|---------|--------|---------|--------|------------|--------|---------------|
| | Sales | M/S | Sales | M/S | Sales | M/S | |
| Kia | 122,878 | 16.4% | 95,479 | 33.9% | 45,107 | 19.4% | |
| Hyundai | 356,869 | 47.7% | 102,705 | 36.4% | 159,237 | 68.4% | |
| GM-Daewoo | 94,740 | 12.7% | 30,533 | 10.8% | 14,064 | 6.0% | |
| Ssangyong | 9,346 | 1.2% | 49,882 | 17.7% | 1 | 0.0% | |
| Renault-Samsung | 116,203 | 15.5% | 782 | 0.3% | 5 | 0.0% | |
| Others | 47,988 | 6.4% | 2,680 | 1.0% | 14,240 | 6.1% | Imports, etc. |
| Total | 748,024 | 100.0% | 282,061 | 100.0% | 232,654 | 100.0% | |

* Based on KAMA new registrations data; there may be slight differences with the company's data

Overseas Sales

Kia Motors exported a total of 842,642 units (exports from Korea plant, CKD excluded) by strengthening the network of dealers and aggressive local marketing activities under the difficult market conditions in 2007 such as high oil prices, strong Korean Won and subprime crisis in the U.S.. In particular, as part of efforts to step up our sales forces, Kia has continuously developed dealer network by inducing excellent dealers or replacing dealers who have poor performance. In order to enhance its brand reputation, Kia attended major motor shows held in Geneva (on March) and Frankfurt (on September). Kia also has been active in various marketing activities such as sponsorship for Davis Cup and EURO 2008.

In the North American market, market demand has decreased by 3% year-on-year due to the contracted consumer sentiment caused by the turbulence in housing market. Sales of small-sized passenger cars and RVs were strong while sales of Vans and Pickups declined. Kia exported a total of 395,498 units, an 8.0% increase from the previous year by expanding sales through strengthened lease program and install payment plan and promoting flexible car sales by regions and vehicle types considering market condition. Kia also focused on fortifying dealer network qualitatively by developing dealers in big cities to establish sales foundation for successful operation of US plant scheduled to start production in 2009.

Retail sales in the U.S. posted 305,473 units, an increase of 3.8% up from last year's 294,302 units. Kia's market share has increased by 0.1%p to 1.9% over 2007. As the demand for small compact cars with high fuel efficiency has risen in the wake of high oil prices, the sales of Rio and Sportage has been outstanding. Rondo(Carens) that was released for the first time in the U.S. market has contributed to sales increase, recording 26,020 units.

• US Sales

(Units, %)

| | 2005 | 2006 | 2007 |
|--------------|---------|---------|---------|
| Retail Sales | 275,851 | 294,302 | 305,473 |
| M/S | 1.6% | 1.8% | 1.9% |

* Source: Autodata, Company data

The Western European market is facing difficulties including intensified competition in sales promotion due to sagging demand in major markets such as Germany and Britain and the release of new cars by rival automakers. In this situation, Kia exported a total of 139,544 units by forming strong dealer network and proactive local marketing and promotion activities. (The exports reach 262,938 units, a 5.9% increase year-on-year, if exports from the Slovakia plant are included)

Retail Sales in Western Europe have decreased by 4.0% from 271,261 units of last year to 260,379 units. Market share in the region fell by 0.1%p to 1.6%. cee'd manufactured at the Slovakia plant gained positive response from the market but RV sales was sluggish due to strengthened regulations on large RVs and new cars released by rival companies.

• W.Europe Sales

(Units, %)

| | 2005 | 2006 | 2007 |
|--------------|---------|---------|---------|
| Retail Sales | 277,833 | 271,261 | 260,379 |
| M/S | 1.8% | 1.7% | 1.6% |

* Source: ACEA, Company data ** W.Europe: EU+EFTA countries

In the meantime, exports to the Eastern European market reached 64,200 units, a leap of 7.1% from the previous year, supported by the brisk sales in emerging markets including Russia and Ukraine. (Exports record 85,167 units, an increase of 42.1% year-on-year if exports from the Slovakia plant included) Retail sales in the Eastern Europe have risen by 43.2% from 57,765 units of last year to 82,711 units.

Exports in other markets excluding North America and Europe rose by 21.7% to 243,400 units over the previous year thanks to economic expansion in Latin America, Africa and the Middle East. In the Latin American market, due to the brisk sales in major markets such as Chile and Brazil, Kia recorded high export growth rate of 32.5% compared with the previous year. Kia was able to achieve export growth of 32.8% year-on-year in the markets of Africa and the Middle East, riding on the economic expansion of oil producing countries. Meanwhile, deterioration in management condition such as strengthened regulations on imported cars and stiff environmental regulations forced the exports in the Asia and Pacific region to fall to 56,818 units, a drop of 4.2% from the previous year.

Retail sales in other markets excluding North America and Europe increased by 13.1% to 212,024 units from 187,524 units of last year.

• Exports per Region

(Units)

| Region | 2005 | 2006 | 2007 |
|----------------------|---------|---------|---------|
| USA | 275,140 | 332,287 | 356,927 |
| Canada | 26,624 | 33,913 | 38,571 |
| Western Europe | 302,614 | 245,102 | 139,544 |
| Eastern Europe/CIS | 49,917 | 59,925 | 64,200 |
| Latin America | 42,299 | 55,656 | 73,731 |
| Africa & Middle East | 65,336 | 84,950 | 112,851 |
| Asia-Pacific | 78,086 | 59,326 | 56,818 |
| Total | 840,016 | 871,159 | 842,642 |

* Exports from Korea plant, CKD excluded

Sales Strategy

Domestic Sales

With the inauguration of new government in 2008, the Korean government will revitalize the economy as a top priority and implement economic development policy focusing on expansion of private consumption and investment. The 2008 auto market in Korea is expected to show a continuous growth as competitive new models will hit the market, the demand to replace old cars with new ones has increased because of the prolonged period of car ownership, and the mini car market has expanded with the benefits and standardization of mini car increasing.

Kia will improve its capacity of sales and marketing, and step up sales promotion to achieve our target of 327,000 units in sales and 25% in market share in 2008.

Kia has a plan to introduce five new competitive models into the market in 2008. We will open a new chapter in domestic sales by minimizing cannibalization among cars of same brand and promoting sales boom through launching of new cars. To this end, we will construct differentiated brand value with every new car and implement a proactive launching promotion.



Management's Discussion & Analysis

Meanwhile, Kia intends to promote marketing that targets VIPs and women as the number of high-income and female customers are on the rise. To respond sophisticated and different life style of customers, various marketing activities optimized for target customers will be implemented as people increasingly enjoy more leisure time and hobbies.

Kia will carry out business promotion advertising campaign, "Design Kia" to enhance brand image and will strengthen sports marketing and star marketing.

Sales promotion plan in 2008 by vehicle type can be broken down as follows:

In the passenger car sector, Kia will focus its sales capacity on new cars such as Morning(Picanto) face-lift model which is classified into mini car taking benefits, Lotze(Optima) face-lift, compact passenger car 'TD'(code name). By doing so, we can drive a new momentum in sales.

In the RV segment, we will attract the attention to new car boom by releasing Mohave (Borrego) and small CUV 'AM'(code name) and focus our efforts on expanding sales of LPI models(Liquefied Petroleum Injection : advanced LPG models) and publicizing competitiveness of products.

In the area of light commercial vehicles, besides consistently managing relationship with the existing customers, we will work hard to promote sales by seeking new clients in large numbers and focusing on target customers. In addition, we intend to publicize high quality of products and brand image to increase market share in the commercial auto market that is expected to show a leap forward this year.

Kia will take a further step to serve customers through various sales promotion events linked to cultural performances including Cinema Day event and customized events for each region, theme and customer. Additionally, to take full responsibility as a social enterprise, Kia will commit itself to voluntary works and make donations to society. Kia will work hard to renew its brand image that can bring happiness and vibrancy to customers through high quality products and services.

Overseas Sales

Kia has set its 2008 export goal at 888,200 units (exports from Korea plant, CKD excluded), a 5.4% rise over 2007. It is expected that the industry will face challenges in market in 2008 due to high oil prices and stiff competition in the industry stemming from stagnant demand. Kia plans to actively respond the market movement through localization reflecting regional market condition and to expand sales by introducing new cars such as Borrego(Mohave), compact passenger car 'TD'(code name).

In particular, as part of efforts to strengthen sales capacity, we will pursue qualitative growth by developing competent dealers from metropolitan areas and replacing or terminating contracts with dealers with poor performance.

Kia plans to enhance brand image through various sports marketing such as EURO 2008, Australian Open and NBA sponsorship and to give young and dynamic image of Kia to the local customers. Along with this effort, Kia will upgrade brand image by publicizing the cee'd was short-listed for the "2008 European Car of the Year" (COTY) award and Kia entered the top tier of automakers for the first time in the J.D. Power and Associates 2007 Initial Quality Study(IQS).

In North American market, we will pursue qualitative growth by developing competent dealers or replacing dealers who have poor performance. We will endeavor to establish sales foundation in preparation for the operation of US plant in 2009.

In third quarter, the new car, Borrego(Mohave), is set to be launched. For a successful launching of the new car, we plan to promote sales in advance by holding events inviting media officials and bloggers. In addition, we will expand our sales through TV advertisement linked to NBA sponsorship and strengthening financial program for customers.

In the Western European market, Kia will pursue qualitative growth by developing dealers in big cities and strengthening dealer management system. In addition, we will step up second hand car remarketing program to provide support for dealers to sell new cars and to improve profitability. In the Eastern European market, we will focus our sales efforts on Russia with rapidly expanding market, and Ukraine and Kazakhstan that have great growth potential. In the European market, cee'd manufactured at the Slovakia plant will play a leading role in expanding sales. Starting from the production of 5Dr hatchback in the late 2006 and addition of Wagon and 3Dr hatchback in 2007, Kia will begin full line-up production of cee'd from 2008.

In the meantime, Kia will expand sales in the general market centering on Latin America, Africa and the Middle East that are showing healthy economic growth supported by high oil price and a rise in raw material price. In the Latin American market, we will promote differentiated sales activities of each vehicle type, while increasing sales focusing on medium- and full-size cars with high profitability. In the markets of Africa and the Middle East, we will step up sales management in major countries such as Saudi Arabia and South Africa.

In the Asian market, in response to economic recession and restriction on imports of CBU(Completely Built-up Units) in major markets including Malaysia and Singapore, we will examine the CKD project and establish various export strategies. In the Chinese market, we will increase sales by strengthening sales network through dealership expansion and enhance brand image through sponsorship for Chinese National Football team and Korean Wave marketing.

Overseas Plant Production and Sales

The plant in Slovakia (Kia Motors Slovakia), which started the mass production in December 2006, sold 144,078 units in 2007. 123 thousand units were sold in Western Europe, 21 thousand units in Eastern Europe.

123 thousand units of cee'd, a strategic compact passenger car in Europe, were sold and the sales of Sportage, which started the production in the second half of 2007, reached 21 thousand units. Starting from 5Dr hatchback, the cee'd model line up was added with wagon in the second half and 3Dr hatchback at the end of 2007.

cee'd was designed in Europe and then has got positive responses for its design specifically to suit European tastes.

In the "2008 European Car of the Year"(COTY) award in which auto journalists and specialists participated as a jury and pick the best model among newly released cars in Europe that year, cee'd came in fourth place out of 33 models. In addition, cee'd was given a favorable receptions such as 'Best Wagon'and 'Best Hatchback' in major media and auto-related organizations in Europe. Moreover, pro_cee'd (3Dr hatchback) and eco_cee'd (eco- friendly model) will be added to the line-up in 2008 in order to make Europeans experience the excellent Kia cars directly.

The Slovakia plant's sales target for 2008 is 225 thousand units: 168 thousand units in Western Europe and 57 thousand units in Eastern Europe. In particular, we are expected to more than double our sales compared to the pervious year based on strong sales in Russia and Ukraine. By car type, we will sell 163 thousand units of cee'd with full line-up of three body types, expand the production of Sportage and record sales of 62 thousand units of it.

In 2007, China's industry demand (which excludes commercial vehicles) reached 5.27 million units, a leap of 24.5% over 2006 (4.23 million units). However, sales record in Chinese plant (Dongfeng Yueda Kia) was 101,427 units, an 11.8% decrease compared to the previous year. Kia's Chinese market share fell by 0.8% point to 1.9% of the total market compared to 2006 (2.7%). In 2007, our competitors released about 60 new cars in the Chinese market, leading to competitive price discount in the industry.

However, we incurred sales loss with maintaining the existing prices as we limited our lineup to two main sales models (Rio, Cerato) and concluded that securing cost competitiveness should come first than price reduction. Through improving profitability measures like expanding localization, we lowered the price of main sales models in last August. Also, we reinforced our lineup by releasing Sportage in October and Cerato face-lift in November. As a result, sales could get on a recovery track from August as a starting point.

The China plant's sales target for 2008 is 250 thousand units. Plant #1 will produce 110,000 units of Rio, Sportage and etc. and plant #2 which was put into operation in November 2007 will produce 140,000 units of Cerato. The plant #2 has the designed capacity of 300 thousand units and plans to increase its production volume by launching new models and a ramp-up process.

In order to reach the sales target in 2008, we are expected to increase our sales by meeting the customers' needs by trimming main models and diversifying our models. We will also secure price competitiveness by reducing costs ordinarily through improvement of option combinations and localization ratio to deal with competitors' price cut. In line with this, we will increase the number of regional sales offices from existing four to ten and strengthen the sales channel like dealer's sales competitiveness. Moreover, we will improve the brand recognition by boosting sports marketing regarding Beijing Olympics.

Management's Discussion & Analysis

Production

In 2007, global production amounted to 1,369 thousand units, a 7.8% increase from the previous year. Korean plant produced 1,119 thousand units (including OEM), a decrease of 2.8% over the previous year. High oil prices and environmental regulation led to slack RV demand, decreasing production and sales of RVs such as Sorento and Sedona(Carnival). Even worse, the production loss of about 23 thousand units occurred due to 90 hour-long labor strikes related with annual wage negotiations. Meanwhile, overseas plant produced 251 thousand units, up 108.5 % compared to the previous year. The plant in Slovakia, which started the mass production at the end of 2006, produced 145 thousand units while China plant produced 106 thousand units.

Our global production target for 2008 is 1.69 million units. Korea, China and Slovakia plant will produce 1,215 thousand, 250 thousand and 225 thousand units respectively.

• Production

| | 2005 | 2006 | 2007 |
|-------------------|-----------|-----------|-----------|
| Global Production | 1,215,502 | 1,270,577 | 1,369,198 |
| Korea Plants | 1,105,431 | 1,150,397 | 1,118,582 |
| Overseas Plants | 110,071 | 120,180 | 250,616 |
| China | 110,071 | 115,465 | 105,538 |
| Slovakia | - | 4,715 | 145,078 |

* OEM Production(Picanto - Donghee Automotive) included

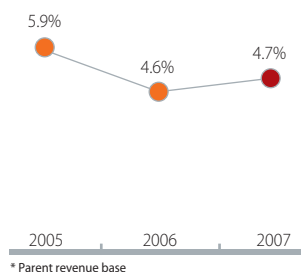
CapEx

Total capital expenditures of the company amounted to ₩1,570 billion in 2007, with the ratio of tangible and intangible R&D investment to sales revenue being 4.7%.

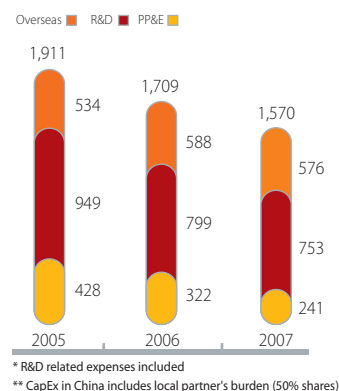
Of the ₩994 billion made in domestic investments, 71% or ₩708 billion has been capitalized - ₩397 billion in tangible assets and ₩312 billion in intangible assets. Tangibles asset investments involve maintenance and investment in new model production facilities. Intangible assets are related to the cost of new model development. While individual depreciation periods vary according to their asset classification, our average depreciation period is 15 years. Amortization of intangible assets begins with the mass production of new models and continues for 3 years.

Overseas investment amounted to ₩576 billion: ₩286 billion in China, ₩156 billion in Slovakia, and ₩135 billion in US. Overseas investment for the future will be on the US plant of which construction is underway and expected to be completed by late 2009.

• R&D Trend (% of Revenue)



• CapEx Trend (KRW in billions)



Credit Ratings

There was no change related to credit ratings in 2007. Overseas credit rating maintained a double investment grade (S&P: BBB-, Moody's: Baa3), and both short-term and long-term domestic credit ratings remained at the top level (short-term credit rating: A1, long-term credit rating: AA-).

Overseas credit rating agencies appraised the synergy effect of Hyundai-Kia Motors and Kia's well-diversified geographic sales base, maintaining the current rating with stable view. The following is the comments from credit rating agencies about maintaining the current rating in June 2007.

• Moody's

"The rating is based on Kia's solid position in the Korean automotive market - together with its partner Hyundai Motor Company - as well as its strengthening global position as a result of regional diversification."

"The two(Kia and Hyundai) have shown considerable progress toward integrating many areas of operations, including platforms, R&D, and parts purchases. Moody's expects them to further integrate operations and strategy, and that the high degree of integration has not resulted in any material differences in their credit quality."

• Standard & Poor's

"Operational ties between the two companies are close and include combined R&D and procurement, as well as a strategy to completely integrate platforms."

"Negative factors are offset by the company's well diversified geographic sales base, growing market position in the global market, its No. 2 position in the domestic automobile industry, and its favorable cost position."

• Credit Ratings (As of Mar, 2008)

| Classification | Agency | Corporate Bond / Long-Term | Commercial Paper / Short-Term |
|----------------|-------------------------|----------------------------|-------------------------------|
| Domestic | Korea Ratings | AA- | |
| | Korea Investors Service | AA- | A1 |
| | NICE Investors Service | AA- | A1 |
| Overseas | Moody's | Baa3 | |
| | Standard & Poor's | BBB- | |

Profitability

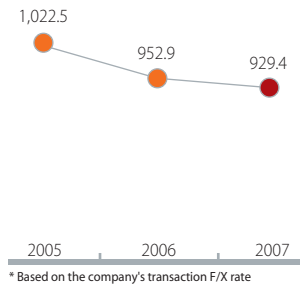
Revenue on the basis of head office recorded ₩15.9 trillion in 2007, a 8.6% decrease from the previous year. That's because exports decreased with slack large RV demand and we brought down the export price for sales subsidiaries to bolster price competitiveness in the overseas market. Despite a drop in car sales and revenues, we could lower the operating deficits with the effort of improving cost structure through management innovation. We reduced the deficit by 0.4% point, from -0.7% in 2006 to -0.3% in 2007. In particular, we had a 2.1% operating gain in the fourth quarter of 2007 due to decreasing fixed cost burden following sales expansion.

Kia Motors will work hard to improve profitability by broadening product line-up and strengthening product competitiveness, sales capability and cost competitiveness. The newly launched cars from 2008 will contribute to the profitability improvement with features like these: realizing Kia-Own-Design Identity, consolidating its position as a global hit model in volume segments and improving profit structure fundamentally through cost innovation during the whole process from drawing to production.

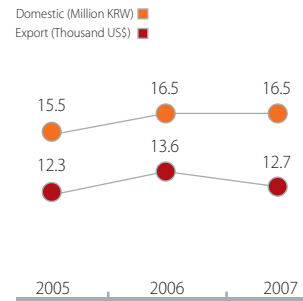
Our domestic average sales price (ASP) was ₩16.5 million, maintaining its same level with the previous year (₩16.5 million). However, ASP of exports was reduced to \$12,700, a 6.2% decrease from the previous year (\$13,600). That was because we reduced the export price and exports of large RVs like Sorento and Sedona(Carnival) were lowered.

Management's Discussion & Analysis

• F/X Rate (USD/KRW)



• ASP Change

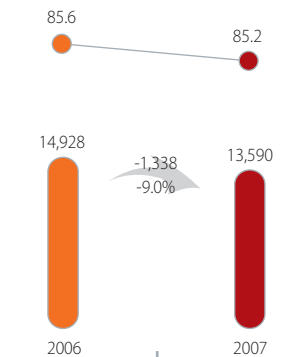


COGS and SG&A

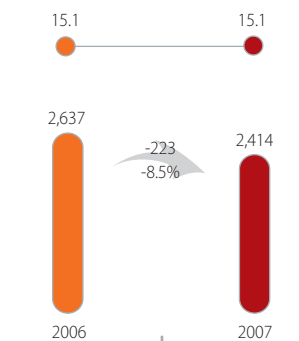
The COGS-to-revenue ratio was 85.2% - a decline of 0.4% point year on year. We could reap the result as we improved the cost structure and effectiveness according to TCI (Technical Cost Innovation) activities, despite rising fixed cost burden caused by decreasing sales volume and revenue.

SG&A to revenue ratio recorded 15.1%, maintaining the same level with the previous year in spite of increasing fixed cost burden caused by revenue decrease. That was because we tightened ordinary budget and lowered overseas marketing expense owing to reduction in export price.

• COGS (KRW in billions, % of Revenue)



• SG&A (KRW in billions, % of Revenue)



Non-Operating Income and Expense / Income before Income Taxes / Net Income

In 2007, Net non-operating income was ₩80 billion, which decreased by ₩119 billion year on year. The decrease came from increasing net interest expense and F/X loss.

Net interest expense increased by ₩65 billion to ₩90 billion in 2007 from ₩25 billion in 2006, mainly due to the increase of debt and interest rates.

In 2006, F/X gain and F/X loss were similar level. But we recorded a net F/X loss of ₩166 billion in 2007 when strong Euro brought about the increase of foreign currency translation loss. Our Euro denominated debt was 1 billion Euro at the end of 2007, accounting for 78% of total foreign currency debt. Korean Won against the Euro was ₩1,381 at the end of 2007, a 13% increase year on year.

Net equity gains increased to ₩325 billion, up ₩47 billion from the previous year. That was possible because Kia Motors Slovakia was transformed itself from deficit in 2006 to surplus in 2007 thanks to start of mass production.

In addition, gain on disposition of tangible assets recorded ₩65 billion (₩16 billion in 2006) due to the disposal of idle asset.

Operating profit improved compared to the previous year, but income before income taxes was reduced by 0.2% point to 0.2% in 2007 from 0.4% in 2006 due to a drop in net non-operating income. Net income also dropped by 0.1 % point to 0.1% in 2007 from 0.2% in 2006.

Assets

• Summary of Balance Sheet

| | (KRW in millions) | | |
|-------------------------|-------------------|------------|------------|
| | 2005 | 2006 | 2007 |
| Assets | 11,241,785 | 12,106,605 | 12,853,763 |
| Cash & Cash Equivalents | 1,116,724 | 631,608 | 776,911 |
| Liabilities | 5,989,417 | 6,858,849 | 7,778,421 |
| Debt | 2,046,040 | 2,940,150 | 4,161,801 |
| Shareholder's Equity | 5,252,368 | 5,247,756 | 5,075,342 |

Assets totaled ₩12,854 billion, up ₩747 billion from the previous year. Cash balances at the end of 2007 including cash & cash equivalents and short-term financial instruments, came to ₩777 billion, an incline of ₩145 billion versus 2006. Equity securities, using the equity method, rose to ₩3,019 billion, up ₩536 billion from the previous year by capital injection for overseas subsidiaries (Kia Motors Slovakia : ₩95 billion, Dongfeng Yueda Kia : ₩28 billion, and etc.) and equity earnings mainly from Hyundai Mobis and Hyundai Steel.

Liabilities

Liabilities totaled ₩7,778 billion, up ₩919 billion from the previous year. Debt rose by ₩1.2 trillion compared to the end of previous year but other liabilities like accounts payable-other decreased.

Total debt was ₩4,162 billion, up by ₩1,222 billion (including the increase from the evaluation of foreign currency debt) compared to the end of previous year. Short-term debt was ₩1,508 billion and long-term debt was ₩2,654 billion, accounting for 36% and 64% respectively. Corporate debentures took 49% out of total debt, totaling ₩2,024 billion (including current portion).

Debt has been increasing due to weaker-than-expected operating performance and continuous capital expenditure for R&D and overseas facilities. By 2008, debt is expected to increase due to the possibility of negative FCF (Free Cash Flow). After 2009, debt will be reduced steadily due to investment reduction following completion of US plant construction.

Shareholder's Equity

Shareholder's equity fell to ₩5,075 billion, down by ₩173 billion at the end of 2007.

The main reason was an appropriation of retained earnings for capital injection to the overseas sales subsidiaries (Kia Motors Europe, Kia Motors Deutschland) which were suspended from the valuation using the equity method due to their negative equity.



Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Stockholders Kia Motors Corporation:

We have audited the accompanying non-consolidated balance sheets of Kia Motors Corporation (the "Company") as of December 31, 2007 and 2006, the related non-consolidated statements of income, appropriation (disposition) of retained earnings (accumulated deficit) and cash flows for the years then ended and the non-consolidated statement of changes in equity for the year ended December 31, 2007. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kia Motors Corporation as of December 31, 2007 and 2006, and the results of its operations, the appropriation (disposition) of retained earnings (accumulated deficit), and its cash flows for the years then ended, and the changes in equity for the year ended December 31, 2007, in conformity with accounting principles generally accepted in the Republic of Korea.

Without qualifying our opinion, we draw attention to the following:

As discussed in note 1(b) to the non-consolidated financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying non-consolidated financial statements are for use by those knowledgeable in Korean accounting principles and auditing standards and their application in practice.

KPMG Samjong Accounting Corp.

Seoul, Korea

February 18, 2008

:: This report is effective as of February 18, 2008, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Non-Consolidated Balance Sheets

As at December 31, 2007 and 2006

| In millions of Won, except share data | | | |
|---|------------|--------------|------------|
| | Note | 2007 | 2006 |
| Assets | | | |
| Cash and cash equivalents | 18 | ₩ 686,911 | 521,608 |
| Short - term deposits | | 90,000 | 110,000 |
| Accounts and notes receivable - trade, less discount on present value of ₩1,315 in 2007 and ₩2,329 in 2006 and allowance for doubtful accounts of ₩127,444 in 2007 and ₩127,849 in 2006 | 3, 8, 18 | 1,043,404 | 1,173,926 |
| Accounts and notes receivable - other, less of allowance for doubtful accounts of ₩85,101 in 2007 and ₩83,754 in 2006 | 8, 18 | 282,145 | 185,854 |
| Inventories | 4, 9 | 880,148 | 903,395 |
| Current deferred tax assets, net | 28 | 181,251 | 177,716 |
| Other current assets | 5, 18, 22 | 69,108 | 49,753 |
| Total current assets | | 3,232,967 | 3,122,252 |
| Equity method accounted investments | 7, 8 | 3,019,147 | 2,483,683 |
| Long - term investment securities | 6, 12 | 15,445 | 42,548 |
| Property, plant and equipment, net | 9, 12, 17 | 5,275,181 | 5,229,598 |
| Intangible assets | 10 | 863,207 | 772,550 |
| Non - current deferred tax assets, net | 28 | 245,088 | 244,248 |
| Other non - current assets | 2, 11 | 202,728 | 211,726 |
| Total non-current assets | | 9,620,796 | 8,984,353 |
| Total assets | | ₩ 12,853,763 | 12,106,605 |
| Liabilities | | | |
| Accounts and notes payable-trade | 8, 18 | ₩ 1,614,231 | 1,694,370 |
| Short-term borrowings | 14, 18 | 979,090 | 659,979 |
| Provision for warranties-current | 19 | 250,793 | 272,741 |
| Accounts and notes payable-other | 8, 18 | 662,792 | 702,394 |
| Income taxes payable | 28 | 11,741 | - |
| Current portion of long-term debt, net of discount | 12, 15, 18 | 450,219 | 502,127 |
| Current portion of sales-leaseback obligation | 17 | 78,416 | - |
| Other current liabilities | 13 | 149,005 | 271,493 |
| Total current liabilities | | 4,196,287 | 4,103,104 |
| Long-term debt, net of discount | 12, 15, 18 | 2,490,110 | 1,778,043 |
| Sales-leaseback obligation | 17 | 163,966 | - |
| Provision for warranties | 19 | 399,917 | 430,748 |
| Accrual for retirement and severance benefits | 20 | 419,314 | 531,455 |
| Other non-current liabilities | 16 | 108,827 | 15,499 |
| Total non-current liabilities | | 3,582,134 | 2,755,745 |
| Total liabilities | | 7,778,421 | 6,858,849 |

See accompanying notes to non-consolidated financial statements.



Non-Consolidated Balance Sheets

As at December 31, 2007 and 2006

| In millions of Won, except share data | | | |
|--|-----------|---------------------|------------|
| | Note | 2007 | 2006 |
| Equity | | | |
| Common stock of ₩5,000 par value | | | |
| Authorized-820,000,000 shares | | | |
| Issued-347,230,455 shares in 2007 and 2006 | | | |
| Outstanding-346,749,691 shares in | | | |
| 2007 and 346,628,405 shares in 2006 | 23 | 1,848,652 | 1,848,652 |
| Capital surplus | 24 | 1,704,583 | 1,703,844 |
| Capital adjustments | 23,26,30 | (2,427) | (2,640) |
| Accumulated other comprehensive loss | 6,7,22,31 | (64,729) | (134,961) |
| Retained earnings | 25 | 1,589,263 | 1,832,861 |
| Total equity | | 5,075,342 | 5,247,756 |
| Total equity and liabilities | | ₩ 12,853,763 | 12,106,605 |

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Income

For the years ended December 31, 2007 and 2006

| In millions of Won, except earnings per share | | | |
|--|------|--------------|------------|
| | Note | 2007 | 2006 |
| Sales | 8,34 | ₩ 15,948,542 | 17,439,910 |
| Cost of sales | 8 | 13,589,960 | 14,927,949 |
| Gross profit | | 2,358,582 | 2,511,961 |
| Selling, general and administrative expenses | 27 | 2,413,986 | 2,637,252 |
| Operating loss | | (55,404) | (125,291) |
| Interest income | | 131,471 | 127,981 |
| Interest expense | | (220,633) | (152,641) |
| Foreign currency translation loss, net | | (154,890) | (6,428) |
| Foreign currency transaction gain (loss), net | | (1,360) | 7,931 |
| Loss on scrapped inventories | | (1,776) | (1,767) |
| Dividend income | | 574 | 536 |
| Equity in earnings of equity method accounted investees, net | 7 | 324,842 | 277,755 |
| Loss on sale of accounts and notes receivable - trade | 3 | (117,148) | (124,096) |
| Loss on impairment of investment securities | | (15) | (57) |
| Gain on sale of investment securities, net | | 11,221 | 345 |
| Gain on valuation of derivatives, net | 22 | 1,141 | 111 |
| Loss on derivative transactions, net | 22 | (10,692) | (2,484) |
| Gain (loss) on sale of property, plant and equipment, net | 9 | 51,760 | (21,278) |
| Other, net | | 65,877 | 92,596 |
| Other income | | 80,372 | 198,504 |
| Income before income taxes | | 24,968 | 73,213 |
| Income taxes | 28 | 11,405 | 33,876 |
| Net income | | ₩ 13,563 | 39,337 |
| Earnings per share | | | |
| Basic earnings per share | 29 | 39 | 114 |
| Diluted earnings per share | 29 | 39 | 113 |

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Appropriation (Disposition) of Retained Earnings (Accumulated Deficit)

For the years ended December 31, 2007 and 2006
Date of Disposition for 2007: March 21, 2008
Date of Appropriation for 2006: March 16, 2007

| | | In millions of Won | |
|---|------|--------------------|--------|
| | Note | 2007 | 2006 |
| Unappropriated (undisposed) retained earnings (accumulated deficit) | | | |
| Balance at beginning of year | | ₩ 61 | 24 |
| Decrease in retained earnings from purchase of equity method securities | 7 | (257,161) | - |
| Net income | | 13,563 | 39,337 |
| Balance at end of year before appropriation (disposition) | | (243,537) | 39,361 |
| Appropriation (disposition) of retained earnings (accumulated deficit) | | | |
| Reserve (transfer) for technological development | | (243,537) | 39,300 |
| Unappropriated (undisposed) retained earnings (accumulated deficit) to be carried over to subsequent year | | ₩ - | 61 |

See accompanying notes to non-consolidated financial statements

Non-Consolidated Statements of Cash Flows

For the years ended December 31,
2007 and 2006

In millions of Won

| | Note | 2007 | 2006 |
|---|------|-----------|-----------|
| Cash flows from operating activities | | | |
| Net income | | ₩ 13,563 | 39,337 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Depreciation | 9 | 454,123 | 460,149 |
| Amortization | 10 | 222,273 | 249,570 |
| Provision for retirement and severance benefits | 20 | 285,676 | 357,508 |
| Provision for warranties | 19 | 205,766 | 246,556 |
| Allowance for doubtful accounts | | - | 2,924 |
| Foreign currency translation loss, net | | 154,890 | 6,428 |
| Loss on scrapped inventories | | 2,410 | 6,401 |
| Reserve for inventory obsolescence | | 2,996 | - |
| Equity in earnings of equity method accounted investees, net | 7 | (324,842) | (277,755) |
| Dividend income from equity method accounted investees | 7 | 33,164 | 34,648 |
| Gain on sale of investment securities, net | | (11,221) | (345) |
| Loss on impairment of investment securities | | 15 | 57 |
| Loss (gain) on sale of property, plant and equipment, net | | (51,760) | 21,278 |
| Interest income (reversal of present value discount) | | (2,497) | (427) |
| Interest expense (amortization of discount on debentures) | | 2,082 | 2,093 |
| Gain on valuation of derivatives | 22 | (1,141) | (111) |
| Loss on sale of accounts and notes receivable - trade | 3 | 117,148 | 124,096 |
| Reversal of allowance for doubtful accounts | | (7,512) | - |
| Deferred income tax expense (benefit) | 28 | (6,102) | 22,344 |
| Changes in assets and liabilities: | | | |
| Decrease (increase) in accounts and notes receivable-trade | | 37,406 | (738,538) |
| Decrease in long-term accounts receivable-trade | | - | 2,175 |
| Decrease (increase) in inventories | | 17,842 | (38,904) |
| Increase in accounts receivable-other | | (88,967) | (43,129) |
| Decrease (increase) in other current assets | | (15,596) | 2,097 |
| Decrease in accounts and notes payable - trade | | (80,902) | (274,156) |
| Increase (decrease) in accounts and notes payable-other | | (40,490) | 98,623 |
| Increase (decrease) in other current liabilities | | (135,555) | 198,030 |
| Increase (decrease) in income taxes payable | | 11,741 | (2,244) |
| Payment of warranty costs | | (258,544) | (267,219) |
| Payment of retirement and severance benefits | | (516,929) | (472,676) |
| Other, net | | 9,203 | 9,640 |
| Net cash provided by (used in) operating activities | | 28,240 | (231,550) |

See accompanying notes to non-consolidated financial statements.



Non-Consolidated Statements of Cash Flows

For the years ended December 31,
2007 and 2006

| | | In millions of Won | |
|---|-------|--------------------|-----------|
| | Note | 2007 | 2006 |
| Cash flows from investing activities | | | |
| Net proceeds from withdrawal of short-term deposits | | ₩ 20,000 | 100,000 |
| Proceeds from withdrawal of long-term deposits | | - | 122 |
| Proceeds from sale of available-for-sale securities | | 29,141 | 3,219 |
| Proceeds from sale of held-to-maturity securities | | 3,936 | 472 |
| Proceeds from sale of equity method accounted investments | | - | 4,668 |
| Proceeds from sale of property, plant and equipment | 9 | 86,603 | 50,300 |
| Proceeds from sale of memberships | | 4,926 | 534 |
| Refund of security deposits | | 9,879 | 8,308 |
| Payment from deposit for severance benefit insurance | 20 | 257,343 | 241,262 |
| Proceeds from advance deposit for sale of land | 16,21 | 92,297 | - |
| Proceeds from advance receipt for Property, plant and equipment | | 2,642 | |
| Purchase of available-for-sale securities | | (9) | (64) |
| Purchase of held-to-maturity securities | | (8,886) | (2,650) |
| Purchase of equity method accounted investments | 7 | (410,402) | (385,713) |
| Purchase of property, plant and equipment | 9 | (534,550) | (528,763) |
| Additions to intangible assets | 10 | (312,930) | (259,075) |
| Payment of security deposits | | (11,399) | (10,142) |
| Purchase of memberships | | (1,524) | (24,935) |
| Contribution to deposit for severance benefit insurance | 20 | (147,434) | (158,604) |
| Net cash used in investing activities | | (920,367) | (961,061) |
| Cash flows from financing activities | | | |
| Proceeds from short-term borrowings, net | | 313,038 | 350,843 |
| Proceeds from long-term debt | | 1,002,573 | 861,305 |
| Proceeds from sales-leaseback obligation | 17 | 250,000 | - |
| Repayment of current portion of long-term debt | | (502,546) | (259,267) |
| Repayment of long-term debt | | - | (58,735) |
| Payment of sales-leaseback obligation | 17 | (7,618) | - |
| Dividends paid | | - | (86,623) |
| Proceeds from deposits received, net | | 1,032 | (926) |
| Proceeds from exercise of stock options | 30 | 951 | 898 |
| Net cash provided by financing activities | | 1,057,430 | 807,495 |
| Net increase (decrease) in cash and cash equivalents | | 165,303 | (385,116) |
| Cash and cash equivalents at beginning of year | | 521,608 | 906,724 |
| Cash and cash equivalents at end of year | | ₩ 686,911 | 521,608 |

See accompanying notes to non-consolidated financial statements.



Non-Consolidated Statement of Changes in Equity

For the year ended December 31,
2007

In millions of Won

| | Capital stock | Capital surplus | Capital adjustments | Accumulated other comprehensive income | Retained earnings | Total |
|--|------------------|--------------------|------------------------|--|----------------------|-----------|
| Balance at January 1, 2007 | ₩ 1,848,652 | 1,703,844 | (2,640) | (134,961) | 1,832,861 | 5,247,756 |
| Net income | - | - | - | - | 13,563 | 13,563 |
| Treasury stock granted under stock option plan | - | 739 | 726 | - | - | 1,465 |
| Exercise of stock options | - | - | (513) | - | - | (513) |
| Change in fair value of available-for-sale securities, net of tax | - | - | - | (5,595) | - | (5,595) |
| Effective portion of changes in fair value of cash flow hedges | - | - | - | (6,700) | - | (6,700) |
| Unrealized holding gain on equity method accounted investments | - | - | - | 50,491 | - | 50,491 |
| Unrealized holding loss on equity method accounted investments | - | - | - | 32,036 | - | 32,036 |
| Decrease in retained earnings from purchase of equity method accounted investments (note 7(d)) | - | - | - | - | (257,161) | (257,161) |
| Balance at December 31, 2007 | ₩ 1,848,652 | 1,704,583 | (2,427) | (64,729) | 1,589,263 | 5,075,342 |

See accompanying notes to non-consolidated financial statements.

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements**(a) Organization and Description of the Business**

Kia Motors Corporation (the "Company"), one of the leading motor vehicle manufacturers in Korea, was established on December 1944 under the laws of the Republic of Korea to manufacture and sell a range of passenger cars, recreational vehicles and other commercial vehicles in the domestic and international markets. The Company owns and operates three principal automobile production sites: the Sohari factory, the Hwasung factory and the Kwangju factory.

The shares of the Company have been listed on the Korea Exchange since 1973. As of December 31, 2007, the Company's largest shareholder is Hyundai Motor Company, which holds 38.7 percent of the Company's stock.

Major overseas subsidiaries for international sales are Kia Motors America, Inc. (KMA) in the United States, Kia Canada, Inc. (KCI) in Canada, Kia Motors Deutschland GmbH (KMD) and Kia Motors Europe GmbH (KME) in Germany. Also, the Company established an overseas assembly subsidiary in Zilina, Slovak Republic on February 26, 2004 to provide production capacity in Europe. The construction of the plant in Zilina was completed and the production started from the end of 2007.

(b) Basis of Presenting Financial Statements

The Company maintains its accounting records in Korean Won and prepares statutory non-consolidated financial statements in the Korean language in conformity with accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these non-consolidated financial statements are intended solely for use by only those who are informed about Korean accounting principles and practices. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English from the Korean language non-consolidated financial statements.

Certain information included in the Korean language non-consolidated financial statements, but not required for a fair presentation of the Company's financial position, results of operations or cash flows, is not presented in the accompanying non-consolidated financial statements.

The accompanying non-consolidated financial statements include only the accounts of the Company, and do not consolidate the accounts of any of its subsidiaries. Instead, these subsidiaries are accounted for under the equity method of accounting (see note 7).

Effective January 1, 2007, the Company adopted Statements of Korea Accounting Standards ("SKAS") No. 11 Discontinued Operations, No. 21 Preparation and Presentation of Financial Statements, No. 22 Share-Based Payments and No. 23 Earnings per Share. Certain accounts of the prior year's non-consolidated financial statements have been reclassified to conform to the current year's presentation. These reclassifications have not resulted in any change to reported net income or stockholders' equity.

According to SKAS No. 21, Preparation and Presentation of Financial Statements, a statement of changes in equity has been included in the non-consolidated financial statements for the year ended December 31, 2007 and the capital adjustment account as of December 31, 2006 has been reclassified into capital adjustments and accumulated other comprehensive income. In accordance with the transition requirements of SKAS No. 21, only the current year's non-consolidated statement of changes in equity is required to be presented in the financial statements. A non-consolidated statement of comprehensive income has been included in the notes to the financial statements.

(c) Cash Equivalents

The Company considers short-term financial instruments with maturities of three months or less at the acquisition date to be cash equivalents.

(d) Deposits

Deposits are held for cash management purposes. Short-term deposits, (including MMDAs, time deposits, installment savings deposits and restricted bank deposits), are those maturing within one year and long-term deposits are those maturing after one year.

(e) Allowance for Doubtful Accounts

Allowance for doubtful accounts is estimated based on an analysis of individual accounts and past experience of collection. However, when principals of trade accounts and notes receivable, interest rate or repayment period are changed unfavorably for the creditor by a court imposition, such as on commencement of reorganization, or by mutual agreement with the Company, and the difference between nominal value and present value is material, the difference is recognized as bad debt expense.

(f) Transfer of Assets

Transfers of financial assets to third parties are accounted for as sales when control is surrendered to the transferee. The Bank derecognizes financial assets from the balance sheet including any related allowance, and recognizes all assets obtained, and liabilities incurred, including any recourse obligations to the transferee, at fair value. Any resulting gain or loss on the sale is recognized in earnings. Conversely, the Bank only recognizes financial assets transferred from third parties on the balance sheet when the Bank obtains control of financial assets.

(g) Inventories

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling costs. The cost of inventories is determined on the specific identification method for materials in transit and on the moving-average method for all other inventories. Amounts of inventory written down to net realizable value due to losses occurring in the normal course of business are recognized as cost of goods sold and are deducted as an allowance from the carrying value of inventories.

The Company recognizes interest costs and other financial charges on borrowings associated with inventories that require a long period in the acquisition, construction or production as an expense in the period in which they are incurred.

(h) Investments in Securities (excluding in associates, subsidiaries)

Classification

Upon acquisition, the Company classifies certain debt and equity securities(excluding investments in subsidiaries, associates) into one of the three categories: held-to-maturity, available-for-sale, or trading securities and such determination is reassessed at each balance sheet date.

Investments in debt securities where the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity. Securities that are bought and held principally for the purpose of selling them in the near term (thus held for only a short period of time) are classified as trading securities. Trading generally reflects active and frequent buying and selling, and trading securities are generally used to generate profit on short-term differences in price. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale securities.

Initial recognition

Investments in securities (excluding investments in subsidiaries, associates) are initially recognized at cost, which consists of the market price of the consideration given to acquire them and incidental expenses.

Subsequent measurement and income recognition

Trading securities are carried at fair value, with unrealized holding gains and losses included in current income. Available-for-sale securities are carried at fair value, with unrealized holding gains and losses reported as accumulated other comprehensive income, net of tax. Investments in equity securities that do not have readily determinable fair values are stated at cost. Investments in debt securities that are classified into held-to-maturity are reported at amortized cost at the balance sheet date and such amortization is included in interest income.

Fair value information

The fair value of marketable securities is determined using quoted market prices as of the period end. Non-marketable debt securities are recorded at the fair values derived from the discounted cash flows by using an interest rate deemed to approximate the market interest rate. The market interest rate is determined by the issuers' credit rate announced by the accredited credit rating agencies in Korea. Money market funds are recorded at the fair value determined by the investment management companies.

Presentation

Trading securities are classified as current assets, whereas available-for-sale securities and held-to-maturity securities are classified as long-term investments. However, available-for-sale securities whose maturity dates are due within one year from the balance sheet date or whose likelihood of being disposed of within one year from the balance sheet date is probable are classified as current assets. Likewise, held-to-maturity securities whose maturity dates are due within one year from the balance sheet date are classified as current assets.

Impairment

A decline in market value of any available-for-sale or held-to-maturity security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value and the impairment loss is charged to current results of operations.

(i) Investments in Associates and Subsidiaries

Associates are all entities over which the Company has the ability to significantly influence the financial and operating policies and procedures, generally through 20 per cent to 50 per cent of the voting rights. Subsidiaries are entities controlled by the Company, generally through greater than 50 per cent voting rights.

Investments in associates and subsidiaries are accounted for using the equity method of accounting and are initially recognized at cost.

The Company's investments in associates and subsidiaries include goodwill identified on acquisition (net of any accumulated impairment loss). Goodwill is calculated as the excess of the acquisition cost of an investment in an associate or subsidiary over the Company's share of the fair value of the identifiable net assets acquired. Goodwill is amortized using the straight-line method over its estimated useful life. Amortization of goodwill is recorded together with equity income (losses).

When events or circumstances indicate that the carrying value of goodwill may not be recoverable, the Company reviews goodwill for impairment and records any impairment loss immediately in the statement of income.

The Company's share of its post-acquisition profits or losses in investments in associates and subsidiaries is recognized in the income statement, and its share of post-acquisition movements in equity is recognized in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of each investment. Changes in the carrying amount of an investment resulting from dividends by an associate or subsidiary are recognized when the associate or subsidiary declares the dividend. When the Company's share of losses in an associate or subsidiary equals or exceeds its interest in the associate or subsidiary, including preferred stock or other long term loans and receivables issued by the associate or subsidiary, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or subsidiary.

Unrealized gains on transactions between the Company and its associates or subsidiaries are eliminated to the extent of the Company's interest in each associate or subsidiary.

(j) Property, Plant and Equipment

Property, plant and equipment are stated at cost, except in the case of revaluation made in accordance the Asset Revaluation Law which allowed for asset revaluation prior to the Law being revoked.

Significant additions or improvements extending useful lives of assets are capitalized. However, normal maintenance and repairs are charged to expense as incurred.

Depreciation is computed by the straight-line method over the estimated useful lives of the respective assets as follows:

| | Useful lives (years) |
|--------------------------|----------------------|
| Buildings and structures | 20-40 |
| Machinery and equipment | 15 |
| Dies, molds and tools | 5 |
| Vehicles | 5 |
| Other equipment | 5 |

The Company recognizes interest costs and other financial charges on borrowings associated with the production, acquisition, construction of property, plant and equipment as an expense in the period in which they are incurred.

The Company reviews the property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when the expected estimated undiscounted future net cash flows from the use of the asset and its eventual disposal are less than its carrying amount.

(k) Leases

The Company classifies and accounts for leases as either operating or capital leases, depending on the terms of the lease. Leases where the Company assumes substantially all the risks and rewards of ownership are classified as capital leases. All other leases are classified as operating leases.

Substantially all the risks and rewards of ownership is evidenced when one or more of the criteria listed below are met:

- Ownership of the leased property will transfer to the lessee at the end of the lease term.
- The lessee has a bargain purchase option, and it is reasonably certain at the inception of the lease that the option will be exercised.
- The lease term is equal to 75% or more of the estimated economic useful life of the leased property.
- The present value at the beginning of the lease term of the minimum lease payments equals or exceeds 90% of the fair value of the leased property.

In addition, if the leased property is specialized to the extent that only the lessee can use it without any major modification, it is considered a capital lease.

Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Where the Company is a lessee under a capital lease, the present value of future minimum lease payments is capitalized and a corresponding liability is recognized. In a sale and leaseback contract, the Company recognizes the sale and leaseback transaction, respectively. However, the Company does not immediately recognize any excess of sales proceeds over the carrying amount as gain, but defers and amortizes the amount over the lease term.

(l) Intangible Assets

An intangible asset is an asset where: (1) it is probable that future economic benefits that are attributable to the asset will flow into the entity and (2) the cost of the asset can be measured reliably.

Intangible assets are stated at cost less accumulated amortization and impairment losses, if any. Impairment losses are determined as the amount required to reduce the carrying amount of an intangible asset to its recoverable amount.

The criteria for determining whether an incurred cost qualifies as an intangible asset and the periods of amortization for each classification of intangible asset are described below:

(i) Research and Development Costs

To assess whether an internally generated intangible asset meets the criteria for recognition, the Company classifies the process into a research phase and a development phase. All costs incurred during the research phase are expensed as incurred. Costs incurred during the development phase are recognized as assets only if all of the following criteria are met in accordance with SKAS No. 3, Intangible Assets:

- (1) Completion of the intangible asset is technically feasible so that it will be available for use or sale;
- (2) the Company has the intention and ability to complete the development of the intangible asset and use or sell it;
- (3) there is evidence that the intangible asset will generate probable future economic benefit;
- (4) the Company has adequate technical, financial and other resources to complete the development of the intangible asset and the intangible asset will be available;
- and (5) the expenditures attributable to the intangible asset during its development can be reliably determined

If the costs incurred fail to satisfy all of the criteria, they are recorded as periodic expenses as incurred. Capitalized development cost is amortized on a straight-line basis over the expected periods to be benefited, generally three years. Expenditures subject to capitalization include the cost of materials, direct labor and an appropriate proportion of overheads.

(ii) Other Intangible Assets

Other intangible assets, which consist of industrial property rights and facility usage rights, are stated at cost less accumulated amortization and impairment losses. Such intangible assets are amortized using the straight-line method over a reasonable period, generally five or ten years, based on the nature of the asset.

When the recoverable amount of the intangible assets is substantially below the carrying amount of the assets due to obsolescence or sharp decline in their value, the Company reduces the carrying amount to the recoverable amount and the amount impaired is recognized as impairment loss.

(m) Discount (Premium) on Debentures

Discount (premium) on debentures issued, which represents the difference between the face value and issuance price of debentures, is amortized (accrued) using the effective interest method over the life of the debentures. The amount amortized (accrued) is included in interest expense.

(n) Retirement and Severance Benefits

Employees who have been with the Company for more than one year are entitled to lump-sum payments based on salary rates and length of service at the time they leave the Company. The Company's estimated liability under the plan which would be payable if all employees left on the balance sheet date is accrued in the accompanying non-consolidated balance sheets. A portion of the liability is covered by an employees' severance benefits trust where the employees have a vested interest in the deposit with the insurance company in trust. The deposit for severance benefits held in trust is, therefore, reflected in the accompanying non-consolidated balance sheets as a reduction of the liability for retirement and severance benefits.

Through March 1999, under the National Pension Scheme of Korea, the Company transferred a certain portion of retirement allowances for employees to the National Pension Fund. The amount transferred will reduce the retirement and severance benefit amount to be payable to the employees when they leave the Company and is accordingly reflected in the accompanying non-consolidated balance sheets as a reduction of the retirement and severance benefits liability. However, due to the new regulation effective April 1999, such transfers to the National Pension Fund are no longer required.

(o) Valuation of Receivables and Payables at Present Value

Receivables and payables arising from long-term cash loans/borrowings and other similar transactions are stated at present value. The difference between the nominal value and the present value of such receivables or payables is amortized using the effective interest method as noted below. The amount amortized is included in interest expense or interest income.

| Account | Interest rate(%) | Period |
|--|------------------|------------------------|
| Long-term accounts receivable - trade* | 8.25~10.00 | from one to five years |
| Long-term accounts receivable - other | 4.15 | from one to six years |

*Current portion of long-term accounts receivable is included in current accounts and notes receivable - trade at present value.

(p) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the rates of exchange on the balance sheet date, with the resulting gains or losses recognized in the income statement. Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the rate of exchange on December 31, 2007 as announced by Seoul Money Brokerage Service Ltd. [Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Korean Won at the foreign exchange rate prevailing on the date of the transaction.

(q) Derivatives

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Attributable transaction costs are recognized in profit or loss when incurred.

Hedge accounting

Where a derivative, which meets certain criteria, is used for hedging the exposure to changes in the fair value of a recognized asset, liability or firm commitment, it is designated as a fair value hedge. Where a derivative, which meets certain criteria, is used for hedging the exposure to the variability of the future cash flows of a forecasted transaction, it is designated as a cash flow hedge.

The Company documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting the changes in fair values or cash flows of hedged items.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in equity. The gain or loss relating to any ineffective portion is recognized immediately in the current operations. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at the time remains in equity and is recognized when the forecast transaction is ultimately recognized in the non-consolidated statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the non-consolidated statement of income.

Derivatives that do not qualify for hedge accounting

Changes in the fair value of derivative instruments that are not designated as fair value or cash flow hedges are recognized immediately in the non-consolidated statement of income.

(r) Stock Options

The Company has granted shares or share options to its employees and other parties. For equity-settled share-based payment transactions, the Company measures the goods or services received, and the corresponding increase in equity as a capital adjustment at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. If the fair value of the equity instruments cannot be estimated reliably at the measurement date, the Company measures them at their intrinsic value and recognizes the goods or services received based on the number of equity instruments that ultimately vest. For cash-settled share-based payment transactions, the Company measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Company remeasures the fair value of the liability at each reporting date and at the date of settlement, with changes in fair value recognized in profit or loss for the period.

(s) Provision, Contingent Assets and Contingent Liabilities

Provisions are recognized when all of the following are met: (1) an entity has a present obligation as a result of a past event, (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (3) a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, a provision is recorded at the present value of the expenditures expected to be required to settle the obligation.

Where the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset when, and only when, it is virtually certain that reimbursement will be received if the Company settles the obligation. The expense relating to a provision is presented net of the amount recognized for a reimbursement.

Provision for warranties

The Company generally provides warranty to the ultimate consumer for each product sold and accrues warranty expense at the time of sale based on the history of actual claims. Also, the Company accrues potential expenses, which may occur due to any product liability suits or voluntary recall campaigns pending as of the balance sheet date. The difference between the nominal value and present value of these is amortized using the effective interest method.

Provision for card points

The Company participates in the card-points program managed by Hyundai Card Co., Ltd., in which the card holders can redeem points to receive discounts when purchasing the Company's motor vehicles. A provision is estimated based on points earned and actual points redeemed in the past.

(t) Revenue Recognition

Revenue from the sale of motor vehicles and parts is measured at the fair value of the consideration received or receivable, net of discounts. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods; generally upon delivery to end customer. Revenue from other than the sale of vehicles and parts is recognized when the Company's revenue-earning activities have been substantially completed, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Company.

Long-term installment sales are recognized at the time of shipment of motor vehicles and parts when the significant risks and rewards of ownership have been transferred to buyer. Interest income arising from long-term installment sales contracts is recognized using the level yielding method.

(u) Income Taxes

Income tax on the income or loss for the year comprises of current and deferred tax. Income tax is recognized in the non-consolidated statement of income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted. Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are classified as current or non-current based on the classification of the related asset or liability for financial reporting or the expected reversal date of the temporary difference for those with no related asset or liability such as loss carryforwards and tax credit carryforwards. The deferred tax amounts are presented as a net current asset or liability and a net non-current asset or liability.

(v) Earnings (Loss) Per Share

Basic earnings (loss) per share are calculated by dividing net income (loss) by the weighed-average number of shares of common stock outstanding during each period. Diluted earnings (loss) per share is determined in the same manner as basic earnings per share except that the number of shares is increased and earnings is decreased assuming exercise of potentially dilutive stock options, unless the effect of such increase would be anti-dilutive.

(w) Use of Estimates

The preparation of non-consolidated financial statements in accordance with accounting principles generally accepted in the Republic of Korea requires management to make estimates and assumptions that affect the amounts reported in the non-consolidated financial statements and related notes to non-consolidated financial statements. Actual results could differ from those estimates.

(2) Restricted Deposits

Deposits which are restricted in use as guarantee deposits for maintaining checking accounts as of December 31, 2007 and 2006 are as follows:

| | | In millions of Won | |
|--------------------|---|--------------------|------|
| | | 2007 | 2006 |
| Long-term deposits | ₩ | 32 | 32 |
| | ₩ | 32 | 32 |

(3) Transfers of Trade Accounts and Notes Receivable

The Company entered into factoring arrangements with banks as a means of discounting trade accounts and notes receivables on a recourse basis amounting to total revolving facility of USD4,435 million. For the years ended December 31, 2007 and 2006, the Company recognized loss of ₩117,148 million and ₩124,096 million, respectively.

Outstanding trade accounts and notes receivable transferred to and discounted with banks, and excluded from the accompanying non-consolidated balance sheets, on which the Company remains contingently liable as of December 31, 2007 and 2006 are summarized as follows:

| In millions of Won | | |
|---------------------------|-------------|-----------|
| | 2007 | 2006 |
| Trade accounts receivable | ₩ 3,285,232 | 3,199,110 |
| Trade notes receivable | 83,285 | - |
| | ₩ 3,368,517 | 3,199,110 |

(4) Inventories

Inventories as of December 31, 2007 and 2006 are summarized as follows:

| In millions of Won | | |
|----------------------|-----------|---------|
| | 2007 | 2006 |
| Merchandise | ₩ 4,736 | 8,902 |
| Finished goods | 442,958 | 472,698 |
| Semi-finished goods | 130,339 | 138,687 |
| Work-in-process | 64,135 | 59,130 |
| Raw materials | 126,760 | 119,408 |
| Supplies | 55,787 | 51,871 |
| Materials-in-transit | 55,433 | 52,699 |
| | ₩ 880,148 | 903,395 |

(5) Other Current Assets

Other current assets as of December 31, 2007 and 2006 are summarized as follows:

| In millions of Won | | |
|--|----------|--------|
| | 2007 | 2006 |
| Accrued income | ₩ 19,775 | 19,503 |
| Advance payments, less allowance for doubtful accounts of ₩3,764 in 2007 and ₩3,871 in 2006 | 12,997 | 23,207 |
| Prepaid expenses | 31,055 | 6,565 |
| Guarantee deposits | 428 | 367 |
| Derivative instruments (note 22) | 4,853 | 111 |
| | ₩ 69,108 | 49,753 |

(6) Long-term Investment Securities

Long-term investment securities other than those accounted for using the equity method as of December 31, 2007 and 2006 are summarized as follows:

| | 2007 | | 2006 |
|-------------------------------|------|--------|--------|
| | | | |
| Available-for-sale securities | | | |
| Marketable securities | ₩ | 137 | 18,745 |
| Non-marketable securities | | 5,453 | 18,898 |
| | | 5,590 | 37,643 |
| Held-to-maturity-securities | | 9,855 | 4,905 |
| | ₩ | 15,445 | 42,548 |

(a) Available-for-sale securities

(i) Marketable securities recorded at fair value as of December 31, 2007 and 2006 are summarized as follows:

| | Percentage of ownership | 2007 | | 2006 |
|-----------------------------|-------------------------|------------------|------------|------------|
| | | Acquisition cost | Fair value | Fair value |
| | | | | |
| KT Freetel Co., Ltd. | - | ₩ 7,200 | - | 6,621 |
| Hyundai Development Company | - | 3,761 | - | 10,650 |
| SeAH Besteel Co., Ltd. | 0.02% | 854 | 137 | 1,422 |
| Kanglim Co., Ltd. | - | 347 | - | 50 |
| Other | - | 30 | - | 2 |
| | | ₩ 12,192 | 137 | 18,745 |

(ii) Non-marketable securities recorded at cost:

| | Percentage of ownership | 2007 | | 2006 |
|--|-------------------------|------------------|------------|------------|
| | | Acquisition cost | Fair value | Fair value |
| | | | | |
| Korea Investment Mutual Saving & Finance Co., Ltd. | 0.41% | ₩ 3,000 | 3,000 | 3,000 |
| Kihyup Technology Banking Corp. | 2.41% | 700 | 700 | 700 |
| THE SIGN Co., Ltd. | 5.80% | 600 | 600 | 600 |
| Dongyung Industries Co., Ltd. | 19.23% | 241 | 241 | 241 |
| Namyang Industrial Co., Ltd. | 8.00% | 200 | 200 | 200 |
| The Korea Economic Daily Co., Ltd. | 4.35% | 4,168 | - | 4,168 |
| Pilot Asset Securitization Specialty Co. - beneficiary certificate | - | 8,252 | - | 9,269 |
| Other | - | 720 | 712 | 720 |
| | | ₩ 17,881 | 5,453 | 18,898 |

These non-marketable securities are recorded at cost as fair value is not available except for Pilot Asset Securitization Specialty Co. - beneficiary certificate, which is recorded at the value assessed by Woori bank.

(iii) Changes in unrealized holding gains

Changes in unrealized gains for the years ended December 31, 2007 and 2006 are summarized as follows:

| | In millions of Won | |
|--|--------------------|---------|
| | 2007 | 2006 |
| Beginning balance | ₩ 7,570 | 14,783 |
| Realized gain on disposition of securities | (7,502) | (378) |
| Changes in unrealized losses | (33) | (6,835) |
| Ending balance | 35 | 7,570 |
| Income tax effect | (10) | (1,950) |
| Net balance at end of year | ₩ 25 | 5,620 |

(b) Held-to-maturity securities

| | Face Value | In millions of Won | |
|---------------------------|------------|--------------------|-------|
| | | Book value | |
| | | 2007 | 2006 |
| Government bonds | ₩ 4,912 | 4,912 | 4,905 |
| Corporate debt securities | 4,860 | 4,943 | - |
| | ₩ 9,772 | 9,855 | 4,905 |

Maturities of debt securities classified as held-to-maturity at December 31, 2007 were as follows:

| | In millions of Won | |
|--|--------------------|-------|
| | Book value | |
| Held-to-maturity | ₩ | 4,955 |
| Due before one year | | 4,085 |
| Due after one year through to five years | | 815 |
| Due after five years | ₩ | 9,855 |

(7) Equity Securities Accounted for Using Equity Method

(a) Investments in companies accounted for using the equity method as of December 31, 2007 are as follows:

| In millions of Won, except owned shares and percentage of ownership | | | | |
|---|-------------------------|-------------|------------|------------------------------|
| Company | Percentage of ownership | Cost | Net assets | Balance at December 31, 2007 |
| Listed | | | | |
| Hyundai Mobis Co., Ltd.(*1) | 17.79% | ₩ 118,993 | 742,423 | 742,107 |
| Hyundai Hysco Co., Ltd.(*1) | 13.91% | 37,479 | 139,192 | 111,450 |
| Hyundai Steel Company | 21.39% | 245,154 | 873,814 | 577,540 |
| Hyundai Autonet Co., Ltd.(*1) | 8.91% | 2,581 | 42,722 | 42,711 |
| Unlisted | | | | |
| Kia Motors America, Inc. | 100.00% | 66,798 | 18,593 | - |
| Kia Canada, Inc. | 82.53% | 58,507 | (89,741) | - |
| Kia Motors Deutschland GmbH | 100.00% | 169,581 | (88,843) | - |
| Kia Motors Europe GmbH | 100.00% | 254,890 | (401,139) | - |
| Kia Motors Australia Pty Ltd. | 100.00% | 21,676 | (20,659) | - |
| Kia Tigers Co., Ltd. | 100.00% | 20,300 | (437) | - |
| Kia Motors Slovakia S.r.o. | 100.00% | 546,430 | 559,890 | 558,191 |
| Kia Japan Co., Ltd. | 100.00% | 33,197 | 19,198 | 19,198 |
| Dongfeng Yueda Kia Motors Co., Ltd. | 50.00% | 161,372 | 166,801 | 166,801 |
| Haevichi Resort Co., Ltd. | 40.00% | 8,520 | (3,443) | - |
| Hyundai Powertech Co., Ltd. | 37.58% | 135,000 | 158,291 | 157,958 |
| WIA Corporation | 39.33% | 30,184 | 194,032 | 179,462 |
| Hyundai Card Co., Ltd.(*1) | 11.61% | 147,961 | 128,290 | 128,290 |
| Dymos Inc. | 45.37% | 89,438 | 119,223 | 122,123 |
| EUKOR Car Carriers, Inc.(*1) | 8.00% | 19,565 | 47,325 | 41,646 |
| AMCO Corp.(*1) | 19.99% | 10,067 | 59,262 | 57,111 |
| Beijing Hyundai Mobis Automotive Parts Co., Ltd. | 24.11% | 22,790 | 28,951 | 28,630 |
| China Millennium Corp. | 30.30% | 27,185 | 9,227 | 9,227 |
| Partecs Company Ltd. | 31.00% | 12,400 | 12,056 | 12,056 |
| Autoever Systems Co., Ltd. | 20.00% | 1,000 | 11,529 | 11,529 |
| Hyundai-Motor Group Ltd. | 30.00% | 9,211 | 14,707 | 12,517 |
| Donghee Auto Co., Ltd. | 35.10% | 10,530 | 9,303 | 9,303 |
| WIA Automotive Engine (Shandong) Company(*1) | 18.00% | 8,426 | 8,877 | 8,877 |
| TRW Steering Co., Ltd. | 29.00% | 8,952 | 4,797 | 4,797 |
| Chasan Co., Ltd.(*1) | 15.00% | 2,250 | (3,681) | - |
| Hyundai Commercial Co., Ltd.(*1) | 15.00% | 15,000 | 10,533 | 10,533 |
| The Korea Economic Daily Co., Ltd.(*1) | 4.35% | 4,168 | 5,043 | 5,043 |
| Yanji Kia Motors A/S and Repair | 100.00% | 1,792 | 1,792 | 1,792 |
| NGVTEK.com | 24.39% | 250 | 250 | 250 |
| EUKOR Car Carriers Singapore Pte | 8.00% | 5 | 5 | 5 |
| | | ₩ 2,301,652 | 2,778,183 | 3,019,147 |

(*1) The Company accounts for its investment in Hyundai Mobis Co., Ltd. and AMCO Corp. under the equity method of accounting due to its significant management control even though the Company's ownership is under 20%. In addition, the Company and its holding company, Hyundai Motor Company, together own more than 20% of Hyundai Card Co., Ltd., Hyundai Hysco Co., Ltd., EUKOR Car Carriers, Inc., Hyundai Autonet Co., Ltd., Chasan Co., Ltd., WIA Automotive Engine (Shandong) Company, Hyundai Commercial Co., Ltd., and The Korea Economic Daily Co., Ltd., which the Company generally presumes that the investee is under significant influence, and thus accounts for these investees under the equity method of accounting.

The Company used the unaudited financial statements of the above affiliated companies when applying the equity method of accounting. For each subsequent period, the Company adjusts the difference between the unaudited and audited results. Historically, the differences have been immaterial.

Investments in affiliated companies accounted for using the equity method as of December 31, 2006 are as follows:

In millions of Won, except owned shares and percentage of ownership

| Company | Percentage of ownership | Cost | Market value or net assets | Balance at December 31, 2006 |
|--|-------------------------|-------------|----------------------------|------------------------------|
| Listed | | | | |
| Hyundai Mobis Co., Ltd.(*1) | 18.13% | ₩ 118,993 | 620,967 | 626,726 |
| Hyundai Hysco Co., Ltd.(*1) | 13.91% | 37,479 | 137,807 | 106,599 |
| Hyundai Steel Company | 21.39% | 245,153 | 752,156 | 429,513 |
| Hyundai Autonet Co., Ltd.(*1) | 8.91% | 2,581 | 40,977 | 40,952 |
| Unlisted | | | | |
| Kia Motors America, Inc. | 100.00% | 66,798 | 52,917 | - |
| Kia Canada, Inc. | 82.53% | 58,507 | (67,386) | - |
| Kia Motors Deutschland GmbH | 100.00% | 53,139 | (111,827) | - |
| Kia Motors Europe GmbH | 100.00% | 114,171 | (275,165) | - |
| Kia Tigers Co., Ltd. | 100.00% | 20,300 | (189) | - |
| Kia Japan Co., Ltd. | 100.00% | 33,197 | 17,984 | 17,984 |
| Kia Motors Slovakia S.r.o. | 100.00% | 451,422 | 388,608 | 388,608 |
| Dongfeng Yueda Kia Motors Co., Ltd. | 50.00% | 133,140 | 135,343 | 136,843 |
| Hyundai Powertech Co., Ltd. | 50.00% | 120,000 | 149,692 | 149,314 |
| Dymos Inc. | 45.37% | 89,438 | 111,461 | 117,409 |
| WIA Corporation | 39.33% | 30,184 | 173,197 | 154,925 |
| Haevichi Resort Co., Ltd. | 40.00% | 8,520 | 4,106 | 4,106 |
| Donghee Auto Co., Ltd. | 35.10% | 10,530 | 8,572 | 8,592 |
| Beijing Hyundai Mobis Automotive Parts Co., Ltd. | 24.11% | 22,790 | 26,443 | 26,038 |
| TRW Steering Co., Ltd. | 29.00% | 8,952 | 6,329 | 6,327 |
| Hyundai Card Co., Ltd.(*1) | 12.12% | 147,960 | 100,905 | 119,370 |
| Autoever Systems Co., Ltd. | 20.00% | 1,000 | 9,213 | 9,213 |
| AMCO Corp.(*1) | 19.99% | 10,067 | 44,421 | 41,194 |
| EUKOR Car Carriers, Inc.(*1) | 8.00% | 19,565 | 51,469 | 45,411 |
| EUKOR Car Carriers Singapore Pte.(*1) | 8.00% | 5 | 5 | 5 |
| China Millennium Corp. | 30.30% | 27,185 | 7,050 | 20,774 |
| Hyundai-Motor Group Ltd. | 30.00% | 9,212 | 8,731 | 8,890 |
| Partecs Company, Ltd. | 31.00% | 12,400 | 12,172 | 12,172 |
| Chasan Co., Ltd.(*1) | 15.00% | 2,250 | (472) | 2,250 |
| Kia Motors Australia Pty Ltd. | 100.00% | 21,676 | 1,036 | - |
| Yanji Kia Motors A/S and Repair | 100.00% | 1,792 | 1,792 | 1,792 |
| WIA Automotive Engine (Shandong) Company(*1) | 18.00% | 8,426 | 5,895 | 8,426 |
| NGVTEK.com | 24.39% | 250 | 250 | 250 |
| | | ₩ 1,887,082 | 2,414,459 | 2,483,683 |

(*1) The Company accounts for its investment in Hyundai Mobis Co., Ltd. and AMCO Corp. under the equity method of accounting due to its significant management control even though the Company's ownership is under 20%. In addition, the Company and its holding company, Hyundai Motor Company, together own more than 20% of EUKOR Car Carriers, Inc., Hyundai Card Co., Ltd. and Hyundai Hysco Co., Ltd. which the Company generally presumed that the investee is under significant influence, and thus accounts for these investees under the equity method of accounting.

The Company used unaudited financial statements of the above affiliated companies when applying the equity method of accounting. In the subsequent period, the Company adjusts the difference between the unaudited and audited results. Historically, the differences have been immaterial.

(b) Changes in investor (negative) goodwill as of December 31, 2007 are as follows:

In millions of Won

| Company | Balance at January 1, 2007 | Increase | Amortized amount | Balance at December 31, 2007 |
|--|-------------------------------|----------|---------------------|---------------------------------|
| Dongfeng Yueda Kia Motors Co., Ltd. | ₩ 1,500 | - | 1,500 | - |
| Hyundai Mobis Co., Ltd. | 5,759 | - | 3,839 | 1,920 |
| Hyundai Steel Company | (322,614) | - | (26,397) | (296,217) |
| WIA Corporation | (16,381) | - | (3,276) | (13,105) |
| Hyundai Card Co., Ltd. | 18,465 | - | 18,465 | - |
| Dymos Inc. | 6,184 | - | 3,092 | 3,092 |
| Hyundai Hysco Co., Ltd. | (31,060) | - | (3,451) | (27,609) |
| EUKOR Car Carriers, Inc. | (6,058) | - | (379) | (5,679) |
| AMCO Corp. | (3,227) | - | (1,076) | (2,151) |
| Beijing Hyundai Mobis Automotive Parts Co., Ltd. | (405) | - | (84) | (321) |
| China Millennium Corp. | 13,724 | - | 13,724 | - |
| Hyundai-Motor Group Ltd. | 159 | - | 159 | - |
| Donghee Auto Co., Ltd. | 20 | - | 20 | - |
| Chasan Co., Ltd. | 2,722 | - | 2,722 | - |
| Hyundai Commercial Co., Ltd. | - | 5,805 | 5,805 | - |
| The Korea Economic Daily Co., Ltd. | - | (519) | (519) | - |
| | ₩ (331,212) | 5,286 | 14,144 | (340,070) |

Changes in investor (negative) goodwill as of December 31, 2006 are as follows:

In millions of Won

| Company | Balance at January 1, 2006 | Increase | Amortized amount | Balance at December 31, 2006 |
|--|-------------------------------|----------|---------------------|---------------------------------|
| Dongfeng Yueda Kia Motors Co., Ltd. | ₩ 3,937 | - | 2,437 | 1,500 |
| Hyundai Mobis Co., Ltd. | 9,598 | - | 3,839 | 5,759 |
| Kia Tigers Co., Ltd. | 1,972 | - | 1,972 | - |
| Dymos Inc. | 9,276 | - | 3,092 | 6,184 |
| WIA Corporation | (19,657) | - | (3,276) | (16,381) |
| Hyundai Autonet Co., Ltd. | (1,355) | - | (1,355) | - |
| Donghee Auto Co., Ltd. | 40 | - | 20 | 20 |
| Beijing Hyundai Mobis Automotive Parts Co., Ltd. | 24 | (466) | (37) | (405) |
| TRW Steering Co., Ltd. | 629 | - | 629 | - |
| Chasan Co., Ltd. | - | 2,722 | - | 2,722 |
| Hyundai Hysco Co., Ltd. | (34,511) | - | (3,451) | (31,060) |
| Hyundai Card Co., Ltd. | 26,650 | 2,796 | 10,981 | 18,465 |
| EUKOR Car Carriers, Inc. | (6,436) | - | (378) | (6,058) |
| Hyundai Steel Company | (303,213) | (45,798) | (26,397) | (322,614) |
| AMCO Corp. | (4,302) | - | (1,075) | (3,227) |
| China Millennium Corp. | 18,298 | - | 4,574 | 13,724 |
| Hyundai-Motor Group Ltd. | 211 | - | 52 | 159 |
| | ₩ (298,839) | (40,746) | (8,373) | (331,212) |

(c) Details of eliminated unrealized gains from inter-company transactions for the years ended December 31, 2007 and 2006 are as follows:

| | | | In millions of Won |
|-----------------------------|-------------------|-------------------|--------------------|
| Company | 2007 Inventory | 2006 Inventory | |
| WIA Corporation | ₩ 1,465 | 1,891 | |
| Hyundai-Motor Group Ltd. | 2,190 | - | |
| Hyundai Hysco Co., Ltd. | 133 | 148 | |
| Hyundai Powertech Co., Ltd. | 333 | 378 | |
| Hyundai Mobis Co., Ltd. | 2,235 | - | |
| Hyundai Steel Company. | 57 | 29 | |
| Dymos Inc. | 192 | 236 | |
| Kia Motors Slovakia s.r.o. | 1,699 | - | |
| Hyundai Autonet Co., Ltd. | 11 | 25 | |
| TRW Steering Co., Ltd. | - | 2 | |
| | ₩ 8,315 | 2,709 | |

(d) Changes in balance of investments in affiliated companies accounted for using the equity method as of December 31, 2007 are as follows:

| In millions of Won | | | | | | |
|---|-------------------------------|--|-------------------------|---|--------------------------------------|------------------------------------|
| Company | Balance at January 1, 2007 | Additional investment (disposal) | Net income (loss) | Accumulated other comprehensive income | Other increase (decrease) (*6) | Balance at December 31, 2007 |
| Kia Motors America Inc.(*1) | ₩ - | - | - | - | - | - |
| Kia Canada, Inc.(*1) | - | - | - | - | - | - |
| Kia Motors Deutschland GmbH (*1, *4) | - | 116,442 | - | - | (116,442) | - |
| Kia Motors Europe GmbH(*1, *4) | - | 140,719 | - | - | (140,719) | - |
| Kia Motors Australia Pty Ltd.(*1) | - | - | - | - | - | - |
| Kia Tigers Co., Ltd.(*1) | - | - | - | - | - | - |
| Kia Motors Slovakia s.r.o. (*3) | 388,608 | 95,008 | 15,585 | 58,990 | - | 558,191 |
| Kia Japan Co., Ltd. | 17,984 | - | 28 | 1,186 | - | 19,198 |
| Dongfeng Yueda Kia Motors Co., Ltd. | 136,843 | 28,233 | (10,466) | 12,191 | - | 166,801 |
| Haevichi Resort Co., Ltd.(*1) | 4,106 | - | (4,106) | - | - | - |
| Hyundai Mobis Co., Ltd. | 626,726 | - | 136,444 | (1,615) | (19,448) | 742,107 |
| Hyundai Steel Company | 429,513 | - | 141,357 | 15,750 | (9,080) | 577,540 |
| Hyundai Powertech Co., Ltd. | 149,314 | 15,000 | (5,542) | (814) | - | 157,958 |
| WIA Corporation | 154,925 | - | 28,735 | (4,198) | - | 179,462 |
| Hyundai Card Co., Ltd. | 119,370 | - | 9,549 | (629) | - | 128,290 |
| Dymos Inc. | 117,409 | - | 4,741 | (27) | - | 122,123 |
| Hyundai Hysco Co., Ltd. | 106,599 | - | 6,225 | (259) | (1,115) | 111,450 |
| EUKOR Car Carriers, Inc. | 45,411 | - | (2,621) | - | (1,144) | 41,646 |
| Hyundai Autonet Co., Ltd. | 40,952 | - | 2,671 | 120 | (1,032) | 42,711 |
| AMCO Corp. | 41,194 | - | 15,439 | 478 | - | 57,111 |
| Beijing Hyundai Mobis Automotive Parts Co., Ltd. | 26,038 | - | (253) | 2,845 | - | 28,630 |
| China Millennium Corp. | 20,774 | - | (12,188) | 641 | - | 9,227 |
| Partecs Company, Ltd. | 12,172 | - | (116) | - | - | 12,056 |
| Autoever Systems Co., Ltd. | 9,213 | - | 2,300 | 16 | - | 11,529 |
| Hyundai-Motor Group Ltd. | 8,890 | - | 2,673 | 954 | - | 12,517 |
| Donghee Auto Co., Ltd. | 8,592 | - | 711 | - | - | 9,303 |
| WIA Automotive Engine (Shandong) Company | 8,426 | - | (169) | 620 | - | 8,877 |
| TRW Steering Co., Ltd. | 6,327 | - | (186) | - | (1,344) | 4,797 |
| Chasan Co., Ltd. (*1) | 2,250 | - | (2,250) | - | - | - |
| Hyundai Commercial Co., Ltd. | - | 15,000 | (4,619) | 152 | - | 10,533 |
| The Korea Economic Daily Co., Ltd.(*5) | - | - | 900 | (25) | 4,168 | 5,043 |
| Yanji Kia Motors A/S and Repair(*2) | 1,792 | - | - | - | - | 1,792 |
| NGVTEK.com(*2) | 250 | - | - | - | - | 250 |
| EUKOR Car Carriers Singapore Pte.(*2) | 5 | - | - | - | - | 5 |
| | ₩ 2,483,683 | 410,402 | 324,842 | 86,376 | (286,156) | 3,019,147 |

(*1) The cumulative income (losses) and unrealized gains not recognized by the Company due to the suspension of the valuation of equity securities using the equity method as of December 31, 2007 consist of the following :

| Company | In millions of Won | |
|-------------------------------|-------------------------------|---------------------|
| | Cumulative Income (losses) | Unrealized gains |
| Kia Motors America, Inc. | ₩ 18,593 | (148,594) |
| Kia Canada, Inc. | (89,741) | (9,527) |
| Kia Motors Deutschland GmbH | (88,843) | (26,962) |
| Kia Motors Europe GmbH | (401,139) | (68,480) |
| Kia Motors Australia Pty Ltd. | (20,659) | (13,429) |
| Haevichi Resort Co., Ltd. | (3,443) | - |
| Chasan Co., Ltd. | (3,681) | - |
| Kia Tigers Co., Ltd. | (437) | - |
| | ₩ (589,350) | (266,992) |

(*2) Investments in affiliates with total assets amounting to less than ₩7billion are recorded at cost, except where the effect of applying the equity method of accounting for investments on the non-consolidated financial statements is material.

(*3) The Company made an adjustment to conform the affiliate's accounting policies related to capitalized interest cost to those of the Company for like transactions and events in similar circumstances. Relating to this adjustment, equity in income of affiliates has been reduced by ₩12,789 million for the year ended December 31, 2007.

(*4) The Company made additional investment in Kia Motors Deutschland GmbH and Kia Motors Europe GmbH during the year. However, as noted above, the equity method was discontinued as the Company's share of losses exceeded the carrying amount of the investment. In accordance with the equity method of accounting, the Company's additional investment is recognized as a decrease of retained earnings, as the cumulative losses are greater than the Company's additional investment.

(*5) The Company reclassified equity interest in The Korea Economic Daily Co., Ltd. from available-for-sale securities to equity method securities as the Company and its holding company, Hyundai Motor Company, together own more than 20%.

(*6) Other increase (decrease) consist of dividends from affiliated companies except for Kia Motors Deutschland GmbH, Kia Motors Europe GmbH (as noted in *4 above) and The Korea Economic Daily Co., Ltd. (as noted in *5 above).

Notes to Non-Consolidated Financial Statements

December 31, 2007 and 2006

Changes in balance of investments in affiliated companies accounted for using the equity method as of December 31, 2006 are as follows:

In millions of Won

| Company | Balance at January 1, 2006 | Additional investment (disposal) | Net income (loss) | Accumulated other comprehensive income | Other increase (decrease) (*3) | Balance at December 31, 2006 |
|---|-------------------------------|--|-------------------------|---|--------------------------------------|------------------------------------|
| Hyundai Mobis Co., Ltd. | ₩ 522,402 | - | 129,874 | (2,213) | (23,337) | 626,726 |
| Hyundai Hysco Co., Ltd. | 104,489 | - | 4,547 | (206) | (2,231) | 106,599 |
| Hyundai Steel Company | 294,943 | - | 134,802 | 8,847 | (9,079) | 429,513 |
| Hyundai Autonet Co., Ltd. | 34,052 | - | 5,597 | 1,303 | - | 40,952 |
| Kia Motors America, Inc.(*1) | - | - | - | - | - | - |
| Kia Canada, Inc.(*1) | - | - | - | - | - | - |
| Kia Motors Deutschland GmbH(*1) | - | - | - | - | - | - |
| Kia Motors Europe GmbH(*1) | - | - | - | - | - | - |
| Kia Japan Co., Ltd. | 19,709 | - | 78 | (1,803) | - | 17,984 |
| Kia Motors Slovakia S.r.o. | 207,095 | 216,000 | (36,557) | 2,070 | - | 388,608 |
| Dongfeng Yueda Kia Motors Co., Ltd. | 63,926 | 76,991 | (302) | (3,772) | - | 136,843 |
| Kia Tigers Co., Ltd.(*1) | 1,907 | - | (1,907) | - | - | - |
| Hyundai Powertech Co., Ltd. | 146,385 | - | 2,659 | 270 | - | 149,314 |
| Dymos Inc. | 113,052 | - | 4,436 | (79) | - | 117,409 |
| WIA Corporation | 130,222 | - | 26,754 | (2,051) | - | 154,925 |
| Haevichi Resort Co., Ltd. | 7,724 | - | (3,618) | - | - | 4,106 |
| Donghee Auto Co., Ltd. | 8,225 | - | 367 | - | - | 8,592 |
| Beijing Hyundai Mobis Automotive Parts Co., Ltd. | 16,720 | 9,272 | 1,697 | (1,651) | - | 26,038 |
| TRW Steering Co., Ltd. | 7,459 | - | (1,132) | - | - | 6,327 |
| Hyundai Card Co., Ltd. | 61,861 | 51,923 | 14,543 | (8,957) | - | 119,370 |
| Autoever Systems Co., Ltd. | 7,199 | - | 2,014 | - | - | 9,213 |
| AMCO Corp. | 25,977 | - | 15,458 | (241) | - | 41,194 |
| EUKOR Car Carriers, Inc. | 42,628 | - | 2,783 | - | - | 45,411 |
| EUKOR Car Carriers Singapore Pte.(*2) | 5 | - | - | - | - | 5 |
| China Millennium Corp. | 23,998 | - | (2,911) | (313) | - | 20,774 |
| Hyundai-Motor Group Ltd. | 8,652 | - | 517 | (279) | - | 8,890 |
| Partecs Company, Ltd. | 12,400 | - | (228) | - | - | 12,172 |
| Haevichi Leisure Co., Ltd.(*2) | 4,500 | (4,500) | - | - | - | - |
| Kia Motors Australia Pty Ltd.(*1) | 825 | 20,851 | (21,716) | 40 | - | - |
| Yanji Kia Motors A/S and Repair(*2) | 1,792 | - | - | - | - | 1,792 |
| Chasan Co., Ltd. | - | 2,250 | - | - | - | 2,250 |
| WIA Automotive Engine (Shandong) Company | - | 8,426 | - | - | - | 8,426 |
| NGVTEK.com(*2) | 250 | - | - | - | - | 250 |
| | ₩ 1,868,397 | 381,213 | 277,755 | (9,035) | (34,647) | 2,483,683 |

(*1) The cumulative income (loss) and unrealized gains not recognized by the Company due to the suspension of the valuation of equity securities using the equity method as of December 31, 2006 consist of the following :

| Company | Cumulative | | In millions of Won |
|-------------------------------|-----------------|-----------|--------------------|
| | Income (losses) | | Unrealized gains |
| Kia Motors America, Inc. | ₩ | 52,917 | (184,967) |
| Kia Canada, Inc. | | (67,386) | (13,531) |
| Kia Motors Deutschland GmbH | | (111,828) | (41,490) |
| Kia Motors Europe GmbH | | (275,165) | (123,368) |
| Kia Motors Australia Pty Ltd. | | 1,036 | (13,822) |
| Kia Tigers Co., Ltd. | | (189) | - |
| | ₩ | (400,615) | (377,178) |

(*2) Investments in small affiliates with total assets amounting to less than ₩70 billion are recorded at cost, except where the effect of applying the equity method of accounting for investments on the non-consolidated financial statements is material.

(*3) Others consist of cash dividends declared.

(e) Summarized financial information of the investees as of and for the year ended December 31, 2007 is as follows:

| Company | In millions of Won | | | |
|--|--------------------|-------------------|-----------|-------------------|
| | Total assets | Total liabilities | Sales | Net income (loss) |
| Kia Motors America, Inc. | ₩ 2,611,693 | 2,593,100 | 4,699,026 | (3,132) |
| Kia Canada, Inc. | 151,600 | 241,341 | 677,976 | (8,398) |
| Kia Motors Deutschland GmbH | 463,091 | 551,934 | 778,500 | (74,076) |
| Kia Motors Europe GmbH | 2,257,800 | 2,658,939 | 3,515,045 | (187,937) |
| Kia Motors Australia Pty Ltd. | 176,600 | 197,259 | 323,119 | (20,125) |
| Kia Tigers Co., Ltd. | 2,579 | 3,016 | 18,538 | (248) |
| Kia Motors Slovakia s.r.o. | 2,467,134 | 1,907,244 | 2,050,200 | 32,141 |
| Kia Japan Co., Ltd. | 19,830 | 632 | 803 | 27 |
| Dongfeng Yueda Kia Motors Co., Ltd. | 1,065,349 | 731,746 | 951,964 | (19,040) |
| Haevichi Resort Co., Ltd. | 323,031 | 331,637 | 27,362 | (19,005) |
| Hyundai Mobis Co., Ltd. | 6,626,100 | 2,451,686 | 8,490,912 | 810,132 |
| Hyundai Steel Company | 8,846,506 | 4,761,321 | 7,382,842 | 537,582 |
| Hyundai Powertech Co., Ltd. | 1,168,996 | 747,743 | 867,020 | 1,471 |
| WIA Corporation | 1,896,812 | 1,403,405 | 3,365,700 | 54,800 |
| Hyundai Card Co., Ltd. | 4,621,523 | 3,516,917 | 1,121,407 | 213,178 |
| Dymos Inc. | 728,650 | 465,870 | 1,101,205 | 16,207 |
| Hyundai Hysco Co., Ltd. | 2,682,611 | 1,681,850 | 3,731,888 | 17,901 |
| EUKOR Car Carriers, Inc. | 1,579,806 | 988,233 | 1,591,213 | (21,657) |
| Hyundai Autonet Co., Ltd. | 724,962 | 245,475 | 889,036 | 36,108 |
| AMCO Corp. | 557,741 | 261,245 | 1,169,684 | 67,338 |
| Beijing Hyundai Mobis Automotive Parts Co., Ltd. | 169,515 | 49,423 | 122,679 | 1,579 |
| China Millennium Corp. | 88,826 | 58,377 | 17,152 | 5,066 |
| Partecs Company, Ltd. | 108,201 | 69,311 | 16,591 | (871) |
| Autoever Systems Co., Ltd. | 169,766 | 112,116 | 420,069 | 11,370 |
| Hyundai-Motor Group Ltd. | 212,003 | 162,979 | 845,660 | 16,740 |
| Donghee Auto Co., Ltd. | 86,551 | 60,046 | 88,688 | 2,078 |
| WIA Automotive Engine (Shandong) Company | 90,626 | 41,312 | 59,005 | (939) |
| TRW Steering Co., Ltd. | 75,062 | 58,524 | 149,755 | 1,173 |
| Chasan Co., Ltd. | 57,248 | 81,788 | - | (19,821) |
| Hyundai Commercial Co., Ltd. | 860,607 | 790,389 | 57,793 | 7,921 |
| The Korea Economic Daily Co., Ltd. | 194,900 | 79,000 | 120,400 | 8,800 |

(f) The market price of equity investments in listed affiliated companies as of December 31, 2007 and 2006 are as follows:

| Company | In millions of Won | |
|---------------------------|--------------------|-----------|
| | 2007 | 2006 |
| Hyundai Mobis Co., Ltd. | ₩ 1,356,668 | 1,336,443 |
| Hyundai Hysco Co., Ltd. | 112,105 | 106,081 |
| Hyundai Steel Company | 1,434,602 | 612,884 |
| Hyundai Autonet Co., Ltd. | 131,761 | 188,554 |
| | ₩ 3,035,136 | 2,243,962 |

(8) Transactions and Balances with Related Companies

(a) Details of parent and subsidiary relationships as of December 31, 2007 are as follows:

| Parent | Control relationship |
|--|----------------------------|
| Hyundai Motor Company | Ultimate controlling party |
| Controlled subsidiary (*1) | Location |
| Kia Motors America, Inc. (KMA) | USA |
| Kia Canada, Inc. (KCI) | Canada |
| Kia Motors Deutschland GmbH (KMD) | Germany |
| Kia Motors Polska Sp.z.o.o. (KMP)(*2) | Poland |
| Kia Motors Slovakia s.r.o. (KMS) | Slovakia |
| Kia Motors Sales Slovensko s.r.o. (KMSs)(*2) | Slovakia |
| Kia Motors Europe GmbH (KME) | Germany |
| Kia Motors Belgium N.V. (KMB)(*2) | Belgium |
| Kia Motors Czech s.r.o. (KMCz)(*2) | Czech |
| Kia Motors (UK) Ltd. (KMUK)(*2) | England |
| Kia Motors Austria GmbH (KMAs)(*2) | Austria |
| Kia Motors Hungary K.ft (KMH)(*2) | Hungary |
| Kia Motors Iberia S.L. (KMib)(*2) | Spain |
| Kia Motors Sweden AB (KMSw)(*2) | Sweden |
| Kia Motors France SAS (KMF)(*2) | France |
| Kia Japan Co., Ltd. (KJC) | Japan |
| Dongfeng Yueda Kia Motors Co., Ltd. (DYK) | China |
| Haevichi Resort Co., Ltd. | Korea |
| Kia Tigers Co., Ltd. | Korea |
| Yanji Kia Motors A/S and Repair | China |
| Kia Motors Australia Pty Ltd. (KMAu) | Australia |
| Kia Motors New Zealand (KMNZ)(*3) | New Zealand |

(*1) Controlled subsidiaries represent majority-owned entities by the Company or an entity for which the Company and/or its controlled subsidiaries, individually or collectively, own more than 30% of total outstanding common stock and are the largest shareholder.

(*2) These entities are wholly-owned subsidiaries of Kia Motors Europe GmbH.

(*3) This entity is a wholly-owned subsidiary of Kia Motors Australia Pty Ltd.

(b) Significant transactions which occurred in the normal course of business with related companies for the year ended December 31, 2007 are summarized as follows:

| Name | Revenue | | Expenses | |
|-------------------------------------|-------------|--------------|-----------|----------------|
| | Sales | Other income | Purchase | Other expenses |
| Hyundai Motor Company | ₩ 364,544 | 58,356 | 452,175 | 417,074 |
| Kia Motors America, Inc. | 4,147,463 | 17,603 | - | 327,223 |
| Kia Canada, Inc. | 505,160 | 3,147 | - | 19,339 |
| Kia Motors Europe GmbH | 1,754,797 | 26,641 | - | 111,086 |
| Kia Motors Australia Pty Ltd. | 324,031 | 10,591 | - | 5,057 |
| Kia Motors Slovakia S.r.o. | 152,697 | 36,813 | 8,341 | 333 |
| Dongfeng Yueda Kia Motors Co., Ltd. | 248,112 | 7,935 | - | - |
| Hyundai Mobis Co., Ltd. | 32,045 | 18,226 | 1,515,862 | 157 |
| Hyundai Hysco Co., Ltd. | 1 | 15 | 33,177 | - |
| Hyundai Powertech Co., Ltd. | 27 | 1,249 | 305,955 | 810 |
| Dymos Inc. | 2 | 363 | 111,548 | 468 |
| Hyundai Steel Company | - | 183 | - | - |
| WIA Corporation | 58 | 33 | 1,428,841 | 350 |
| Autoever Systems Co., Ltd. | 81 | 3,880 | 2,583 | 46,986 |
| AMCO Corp. | 513 | 275 | 59,054 | 17,767 |
| Donghee Auto Co., Ltd. | - | - | 88,688 | 7 |
| EUKOR Car Carriers, Inc. | - | 250 | - | 370,521 |
| TRW Steering Co., Ltd. | - | - | 2,123 | 73 |
| Hyundai Autonet Co., Ltd. | 95 | 24 | 25,312 | 533 |
| Hyundai-Motor Group Ltd. | 151,718 | - | - | 749 |
| Hyundai Motor America, Inc. | 193,388 | - | - | 4,370 |
| Hyundai Auto Canada, Inc. | 33,593 | - | - | 677 |
| Hyundai Capital Service, Inc. | 151,996 | 8,532 | - | 24,693 |
| KEFICO Corporation | 14 | 18 | 89,033 | 8 |
| METIA Corporation | 7,510 | 2 | 14,891 | - |
| AIA Corporation | 4,938 | 956 | 82,261 | 523 |
| GLOVIS Co., Ltd. | 12,131 | 71,942 | 70,123 | 151,323 |
| WISCO Co., Ltd. | - | 1 | 18,279 | - |
| INNOCEAN Co., Ltd | - | 1 | - | 17,018 |
| Others | 1,151 | 2,653 | 107,392 | 35,687 |
| | ₩ 8,086,065 | 269,689 | 4,415,638 | 1,552,832 |

Notes to Non-Consolidated Financial Statements

December 31, 2007 and 2006

Significant transactions which occurred in the normal course of business with related companies for the year ended December 31, 2006 are summarized as follows:

In millions of Won

| Name | Revenue | | Expenses | |
|-------------------------------------|-------------|--------------|-----------|----------------|
| | Sales | Other income | Purchase | Other expenses |
| Hyundai Motor Company | ₩ 608,592 | 43,598 | 587,691 | 399,805 |
| Kia Motors America, Inc. | 4,124,896 | 15,978 | - | 477,984 |
| Kia Canada, Inc. | 424,924 | 2,744 | - | 18,078 |
| Kia Motors Europe GmbH | 3,258,680 | 24,956 | - | 103,773 |
| Kia Motors Polska Sp.z.o.o | 57,565 | 632 | - | - |
| Kia Motors Australia Pty Ltd. | 217,046 | 5,439 | - | 4,245 |
| Kia Motors Slovakia S.r.o. | 42,225 | 81,491 | - | - |
| Dongfeng Yueda Kia Motors Co., Ltd. | 235,748 | 14,515 | - | 303 |
| Hyundai Mobis Co., Ltd. | 27,436 | 13,921 | 1,848,636 | 1,430 |
| Hyundai Hysco Co., Ltd. | 104 | 11 | 42,452 | - |
| Hyundai Powertech Co., Ltd. | 170 | 1,302 | 355,925 | 345 |
| Dymos Inc. | 1,422 | 296 | 141,344 | - |
| Hyundai Steel Company | - | 177 | 2,005 | - |
| WIA Corporation | 3,847 | 4,434 | 1,149,274 | 251 |
| Autoever Systems Co., Ltd. | 350 | 3,704 | 3,986 | 42,680 |
| AMCO Corp. | 377 | 466 | 58,018 | 16,878 |
| Donghee Auto Co., Ltd. | 20 | 551 | 85,562 | 5 |
| EUKOR Car Carriers, Inc. | - | - | - | 435,692 |
| TRW Steering Co., Ltd. | 9 | - | 2,396 | - |
| Hyundai Autonet Co., Ltd. | 219 | 34 | 31,988 | 301 |
| Hyundai-Motor Group Ltd. | 36,778 | - | - | - |
| Hyundai Capital Service, Inc. | 114,902 | 7,844 | - | 27,273 |
| Hyundai Motor America, Inc. | 531,123 | - | - | 1,070 |
| Hyundai Auto Canada, Inc. | 63,286 | - | - | 203 |
| KEFICO Corporation | 167 | 14 | 86,401 | 24 |
| METIA Corporation | 5,411 | - | 8,164 | 3,874 |
| AIA Corporation | 956 | - | 49,683 | 44 |
| Others | 825 | 683 | 14,714 | 38,979 |
| | ₩ 9,757,078 | 222,790 | 4,468,239 | 1,573,237 |

(c) Account balances with related companies as of December 31, 2007 are as follows:

In millions of Won

| Name | Receivables | | Payables | |
|-------------------------------------|--|-------------------------|---------------------------------------|----------------------|
| | Accounts and noted receivable - trade | Other receivable (*) | Accounts and noted payable - trade | Other payable (*) |
| Hyundai Motor Company | ₩ 16,449 | 18,486 | 72,859 | 102,680 |
| Kia Motors America, Inc. | 74,294 | 51,512 | - | 8,744 |
| Kia Canada, Inc. | 12,136 | 3,246 | - | 2,482 |
| Kia Motors Europe GmbH | 58,070 | 133,446 | - | 9,801 |
| Kia Motors Australia Pty Ltd. | 14,917 | 12,937 | - | 892 |
| Kia Motors Slovakia s.r.o. | 98,237 | 7,040 | 8,524 | 53,691 |
| Dongfeng Yueda Kia Motors Co., Ltd. | 54,006 | 7,944 | - | 190 |
| Hyundai Mobis Co., Ltd. | 455 | 16,073 | 309,543 | 3,582 |
| Hyundai Hysco Co., Ltd. | - | 101 | 2,625 | 95 |
| Hyundai Powertech Co., Ltd. | - | 100 | 58,014 | 93,173 |
| Dymos Inc. | 2 | 403 | 19,166 | 487 |
| Hyundai Steel Company | 50 | 13 | - | - |
| WIA Corporation | - | 668 | 245,130 | 8,695 |
| Autoever Systems Co., Ltd. | - | 355 | 4,437 | 5,979 |
| AMCO Corp. | - | - | 27,456 | 9,130 |
| Donghee Auto Co., Ltd. | - | - | 9,512 | 252 |
| EUKOR Car Carriers, Inc. | - | - | - | 29,943 |
| TRW Steering Co., Ltd. | - | - | 353 | 3 |
| Hyundai Autonet Co., Ltd. | - | - | 8,486 | 571 |
| Hyundai-Motor Group Ltd. | 3,490 | - | - | 213 |
| Hyundai Motor America, Inc. | 7,054 | - | - | 420 |
| Hyundai Auto Canada, Inc. | 73 | - | - | 90 |
| Hyundai Capital Service, Inc. | 1 | 5 | - | 2 |
| KEFICO Corporation | - | - | 15,467 | 211 |
| METIA Corporation | - | 140 | 1,253 | 2,236 |
| AIA Corporation | 143 | 121 | 16,361 | 196 |
| GLOVIS Co., Ltd. | 1,239 | 181 | 15,076 | 21,563 |
| WISCO Co., Ltd. | - | - | 3,357 | 51 |
| INNOCEAN Co., Ltd | - | - | 8,963 | 18,368 |
| Others | 288 | 1,233 | 17,565 | 1,401 |
| | ₩ 340,904 | 254,004 | 844,147 | 375,141 |

Allowance for doubtful accounts and bad debt expense related to account balances with related parties as of December 31, 2007 are ₩5,950 million and ₩1,604 million, respectively.

* Other receivable and payable balances represent balances recorded in accounts and notes receivable - other, prepaid expenses, accounts and notes payable - other, and unearned income.

Notes to Non-Consolidated Financial Statements

December 31, 2007 and 2006

Account balances with related companies as of December 31, 2006 are as follows:

In millions of Won

| Name | Receivables | | Payables | |
|-------------------------------------|--|-------------------------|---------------------------------------|----------------------|
| | Accounts and noted receivable - trade | Other receivable (*) | Accounts and noted payable - trade | Other payable (*) |
| Hyundai Motor Company | ₩ 81,640 | 6,801 | 108,231 | 97,760 |
| Kia Motors America, Inc. | 74,913 | 26,506 | - | 152,035 |
| Kia Canada, Inc. | 13,168 | 3,897 | - | 1,682 |
| Kia Motors Europe GmbH | 148,258 | 53,402 | - | 6,190 |
| Kia Motors Polska Sp.z.o.o | 2,790 | 2,092 | - | 531 |
| Kia Motors Australia Pty Ltd. | 10,603 | 4,074 | - | 574 |
| Kia Motors Slovakia s.r.o. | 8,454 | 2,947 | - | 66,324 |
| Dongfeng Yueda Kia Motors Co., Ltd. | 52,891 | 2,444 | - | - |
| Hyundai Mobis Co., Ltd. | 383 | 15,356 | 216,666 | 1,314 |
| Hyundai Hysco Co., Ltd. | - | - | 11,181 | 93 |
| Hyundai Powertech Co., Ltd. | - | 115 | 65,186 | 1,136 |
| Dymos Inc. | - | 250 | 26,159 | 201 |
| Hyundai Steel Company | 50 | 12 | - | - |
| WIA Corporation | - | 3,360 | 188,806 | 9,959 |
| Autoever Systems Co., Ltd. | - | 320 | 5,323 | 6,237 |
| AMCO Corp. | - | - | 22,258 | 8,951 |
| Donghee Auto Co., Ltd. | - | - | 9,359 | 117 |
| EUKOR Car Carriers, Inc. | - | - | - | 45,417 |
| TRW Steering Co., Ltd. | - | - | 575 | - |
| Hyundai Autonet Co., Ltd. | - | 4 | 11,438 | 568 |
| Hyundai-Motor Group Ltd. | 5,818 | - | - | - |
| Hyundai Capital Service, Inc. | - | - | - | 537 |
| Hyundai Motor America | 172 | 433 | - | 345 |
| Hyundai Auto Canada | - | - | - | 27 |
| KEFICO Corporation | - | 1 | 13,131 | 91 |
| METIA Corporation | - | 1,422 | 2,410 | 2,562 |
| AIA Corporation | - | - | 15,685 | 237 |
| Others | 210 | 61 | 9,305 | 4,266 |
| | ₩ 399,350 | 123,497 | 705,713 | 407,154 |

Allowance for doubtful accounts and bad debt expense related to account balances with related parties as of December 31, 2006 are ₩4,346 million and ₩1,985 million, respectively.

* Other receivable and payable balances represent balances recorded in accounts and notes receivable - other, accounts and notes payable - other and unearned income.

(d) Executive compensation for each of the following categories for the years ended December 31, 2007 and 2006 are as follows:

| | | In millions of Won | |
|---|---|--------------------|--------|
| | | 2007 | 2006 |
| Compensation | | | |
| Salaries | ₩ | 31,563 | 37,740 |
| Provision for retirement and severance benefits | | 23,310 | 24,439 |
| | ₩ | 54,873 | 62,179 |

(e) The Company provided guarantees for related companies as of December 31, 2007 and 2006 as follows:

| Related party | Type of borrowings | Foreign currency (in thousands) | |
|-------------------------------------|---|---------------------------------|-------------|
| | | 2007 | 2006 |
| Kia Motors Slovakia s.r.o. | Plant loan and general loan | EUR 360,889 | EUR 347,069 |
| Kia Motors (UK) Ltd. | Payment of customs duties | GBP 2,110 | GBP 13,200 |
| | | EUR 3,000 | EUR 6,180 |
| Kia Motors Europe GmbH | Guarantee for borrowings related to construction of new office building | EUR 20,000 | EUR 45,000 |
| Dongfeng Yueda Kia Motors Co., Ltd. | Plant loan | USD 100,000 | - |
| | | RMB 196,550 | - |

(f) Assets pledged as collateral for related companies as of December 31, 2007 and 2006 are as follows:

| In millions of Won | | | | |
|-------------------------------------|--------------------------|------------|--------|----------------------------|
| Assets | Related party | Book value | | Lender |
| | | 2007 | 2006 | |
| Equity method accounted investments | EUKOR Car Carriers, Inc. | ₩ 41,646 | 45,411 | The Korea Development Bank |
| | EUKOR Car Carriers | | | |
| | Singapore, Pte. | 5 | 5 | |
| | | ₩ 41,651 | 45,416 | |

(9) Property, Plant and Equipment

Property, plant and equipment at December 31, 2007 and 2006 are summarized as follows:

| | | In millions of Won | |
|---------------------------------------|---|--------------------|-------------|
| | | 2007 | 2006 |
| Property, plant and equipment at cost | ₩ | 8,549,747 | 8,206,494 |
| Accumulated depreciation | | (3,274,566) | (2,976,896) |
| Property, plant and equipment, net | ₩ | 5,275,181 | 5,229,598 |

(a) Changes in property, plant and equipment for the year ended December 31, 2007 are as follows:

In millions of Won

| | 2007 | | | | | Book value as of December 31, 2007 |
|------------------------------|----------------------------------|--------------|-----------|--------------|-----------|------------------------------------|
| | Book value as of January 1, 2007 | Acquisitions | Disposals | Depreciation | Other | |
| Land | ₩ 1,343,536 | - | (11,347) | - | 54,271 | 1,386,460 |
| Buildings | 1,043,533 | - | (9,555) | (40,736) | 53,499 | 1,046,741 |
| Structures | 217,377 | - | (1,184) | (19,657) | 17,070 | 213,606 |
| Machinery and equipment | 1,841,127 | - | (254,027) | (218,662) | 239,674 | 1,608,112 |
| Capital lease asset | - | 250,000 | - | (7,136) | - | 242,864 |
| Dies, molds and tools | 338,460 | - | (193) | (129,095) | 41,223 | 250,395 |
| Vehicles | 40,307 | - | (4,395) | (12,870) | 17,305 | 40,347 |
| Other equipment | 65,220 | - | (268) | (25,967) | 12,290 | 51,275 |
| Construction - in - progress | 340,038 | 534,550 | (3,875) | - | (435,332) | 435,381 |
| | ₩ 5,229,598 | 784,550 | (284,844) | (454,123) | - | 5,275,181 |

The Company entered into a sales-leaseback contract for used machinery and equipment with GE Capital Korea Ltd. in September 2007 (see note 17).

Changes in property, plant and equipment for the year ended December 31, 2006 are as follows:

In millions of Won

| | 2006 | | | | | Book value as of December 31, 2006 |
|------------------------------|----------------------------------|--------------|-----------|--------------|-----------|------------------------------------|
| | Book value as of January 1, 2006 | Acquisitions | Disposals | Depreciation | Other | |
| Land | ₩ 1,363,519 | - | (20,205) | - | 222 | 1,343,536 |
| Buildings | 963,045 | - | (2,492) | (39,992) | 122,972 | 1,043,533 |
| Structures | 220,982 | - | (1,170) | (19,123) | 16,688 | 217,377 |
| Machinery and equipment | 1,631,717 | - | (37,407) | (225,633) | 472,450 | 1,841,127 |
| Dies, molds and tools | 383,076 | - | (2,781) | (133,398) | 91,563 | 338,460 |
| Vehicles | 35,751 | - | (5,988) | (12,340) | 22,884 | 40,307 |
| Other equipment | 76,157 | - | (793) | (29,663) | 19,519 | 65,220 |
| Construction - in - progress | 558,316 | 528,763 | (743) | - | (746,298) | 340,038 |
| | ₩ 5,232,563 | 528,763 | (71,579) | (460,149) | - | 5,229,598 |

(b) Insurance

As of December 31, 2007, inventories, buildings, structures, machinery and equipment and dies, molds and tools were insured against fire damage up to ₩4,162,048 million. In addition, the Company carries general insurance for vehicles and workers' compensation and casualty insurance for employees.

(c) The officially declared value of land at December 31, 2007, as announced by the Minister of Construction and Transportation, is as follows:

In millions of Won

| | Book value | Declared value |
|-----------------|-------------|----------------|
| Head office | ₩ 335,790 | 391,529 |
| Sohari factory | 296,469 | 571,339 |
| Hwasung factory | 269,237 | 419,393 |
| Kwangju factory | 346,297 | 299,729 |
| Others | 138,667 | 194,383 |
| | ₩ 1,386,460 | 1,876,373 |

The officially declared value, which is used for government purposes, is not intended to represent fair value.

(10) Intangible Assets

(a) Changes in intangible assets for the year ended December 31, 2007 are as follows:

In millions of Won

| | 2007 | | | |
|----------------------------------|-------------------|----------------------------|-----------------------|-----------|
| | Development costs | Industrial property rights | Facility usage rights | Total |
| Net balance at beginning of year | ₩ 760,673 | 6,370 | 5,507 | 772,550 |
| Additions | 311,558 | 1,372 | - | 312,930 |
| Amortization | (219,061) | (1,346) | (1,866) | (222,273) |
| Net balance at end of year | ₩ 853,170 | 6,396 | 3,641 | 863,207 |

Changes in intangible assets for the year ended December 31, 2006 are as follows:

In millions of Won

| | 2006 | | | |
|----------------------------------|-------------------|----------------------------|-----------------------|-----------|
| | Development costs | Industrial property rights | Facility usage rights | Total |
| Net balance at beginning of year | ₩ 749,639 | 6,033 | 7,373 | 763,045 |
| Additions | 257,519 | 1,556 | - | 259,075 |
| Amortization | (246,485) | (1,219) | (1,866) | (249,570) |
| Net balance at end of year | ₩ 760,673 | 6,370 | 5,507 | 772,550 |

(b) Research and development costs incurred for the years ended December 31, 2007 and 2006 are as follows:

In millions of Won

| | 2007 | 2006 |
|--|-----------|---------|
| Development cost | ₩ 311,558 | 257,519 |
| Cost of sales | 81,271 | 138,025 |
| Selling, general and administrative expenses | 204,294 | 190,568 |
| | ₩ 597,123 | 568,112 |

(11) Other Non-Current Assets

Other assets as of December 31, 2007 and 2006 are summarized as follows:

In millions of Won

| | 2007 | 2006 |
|--|-----------|---------|
| Long-term deposits (note 2) | ₩ 32 | 32 |
| Long-term accounts receivable - trade, less discount on present value of ₩467 in 2007 and ₩861 in 2006 | 3,358 | 5,785 |
| Long-term accounts receivable - other, less allowance for doubtful accounts of ₩23,668 in 2007 and ₩24,989 in 2006 | 22,562 | 29,495 |
| Guarantee deposits | 176,776 | 176,414 |
| | ₩ 202,728 | 211,726 |

(12) Pledged Assets and Guarantees

(a) The following assets were pledged as collateral for the Company's long-term debt and others as of December 31, 2007:

| | | | | | In millions of Won | |
|--------------------------------|---------------------------------------|--|------------------|--------|-----------------------|---------|
| | | | | | In thousands of USD | |
| Assets | Lender | Type of Borrowings | Borrowing amount | | Collateralized amount | |
| Available- for-sale securities | Korean Defense Industry Association | Performance guaranty | ₩ | - | 320 | |
| Land and buildings | The Korea Development Bank and others | Long-term debt | USD | 41 | ₩ | 774,420 |
| | | | ₩ | 85,763 | | |
| Land and buildings | Woori Bank | Vocational training and development fund | ₩ | - | 1,250 | |
| | | | USD | 41 | | |
| | | | ₩ | 85,763 | 775,990 | |

(13) Other Current Liabilities

Other current liabilities as of December 31, 2007 and 2006 are as follows:

| | 2007 | | 2006 |
|----------------------------------|--------------------|---------|---------|
| | In millions of Won | | |
| Advances from customers | ₩ | 35,335 | 23,598 |
| Unearned income (*) (note 8) | | 53,691 | 66,357 |
| Accrued expenses | | 49,541 | 181,512 |
| Accrued dividends | | 26 | 26 |
| Derivative instruments (note 22) | | 10,412 | - |
| | ₩ | 149,005 | 271,493 |

(*) The Company entered into a technical support contract with Kia Motors Slovakia s.r.o. for which it received lump sum payment of ₩66,357million in December 2006. Revenue will be recognized over the five year contract period ending 2011.

(14) Short - Term Borrowings

Short-term borrowings as of December 31, 2007 and 2006 amounted to ₩979,090 million and ₩659,979 million, respectively, and consist of bank loans and commercial paper with annual interest rate ranging from 1.12% to 7.08%.

(15) Long - Term Debt

(a) Long-term debt as of December 31, 2007 and 2006 are summarized as follows:

| In millions of Won | | | | |
|--|----------------------|---|-----------|-----------|
| Lender | Annual interest rate | | 2007 | 2006 |
| Local currency borrowings | | | | |
| Korea Development Financing Corp.(*2) | (*1) | ₩ | 4,927 | 9,847 |
| Woori Bank(*2) | (*1) | | 568 | 1,123 |
| Nara Banking Corporation(*2) | (*1) | | 3,696 | 7,389 |
| Resolution and Finance Corporation(*2) | (*1) | | 6,506 | 12,959 |
| Kookmin Bank and others | 1.0%~5.25% | | 10,780 | 13,680 |
| The Korea Development Bank | (*3) | | 50,000 | - |
| Hana Bank | CD 91 days+96bp | | 70,000 | - |
| Kyobo Life Insurance Co., Ltd. | 5.87% | | 30,000 | - |
| Others(*2) | (*1) | | 7,415 | 14,726 |
| | | | 183,892 | 59,724 |
| Foreign currency borrowings | | | | |
| Deutsche Bank(*2) | (*1) | | 5,117 | 10,140 |
| STAR Lease Co., Ltd.(*2) | (*1) | | 74 | 146 |
| Citi Financial Co., Ltd.(*2) | (*1) | | 1,405 | 2,783 |
| Korea Lease Financing Co., Ltd.(*2) | (*1) | | 1,319 | 2,613 |
| CITI Corp.(*2) | (*1) | | 1,037 | 2,054 |
| Korea Development Financing Corp(*2) | (*1) | | 544 | 1,078 |
| Han Kook Capital Co., Ltd.(*2) | (*1) | | 982 | 1,946 |
| ABN-AMRO | (*4) | | - | 61,112 |
| Deutsche Bank | (*4) | | - | 36,667 |
| Korea Eximbank | (*4) | | 358,814 | 339,143 |
| Societe Generale | (*4) | | - | 146,669 |
| SC First Bank | 5.45% | | 51,601 | - |
| Calyon | 6M Euribor+0.4% | | 310,784 | - |
| Others(*2) | (*1) | | 792 | 1,536 |
| | | | 732,469 | 605,887 |
| Debentures | | | | |
| 263th | 3M Libor+0.95% | | - | 185,920 |
| 264th | 6M Euribor+0.95% | | 414,378 | 366,672 |
| 265th | 3.73% | | 414,378 | 366,672 |
| 266-1th | 4.98% | | 100,000 | 100,000 |
| 266-2th | 5.19% | | 200,000 | 200,000 |
| 267th | 5.19% | | 100,000 | 100,000 |
| 268-1th | 4.88% | | 150,000 | 150,000 |
| 268-2th | 5.01% | | 150,000 | 150,000 |
| 269th | 5.33% | | 300,000 | - |
| 270th | 5.73% | | 200,000 | - |
| Less discount (long-term portion) | | | (4,788) | (4,705) |
| | | | 2,023,968 | 1,614,559 |
| Less current portion of long-term debt, net of discount of ₩470 in 2007 and ₩222 in 2006 | | | (450,219) | (502,127) |
| | | ₩ | 2,490,110 | 1,778,043 |

(*1) Based on the earning rate for three-year non-guarantee corporate debentures which was 6.77% and 5.04% at December 31, 2007 and 2006, respectively.

(*2) The Company began the corporate reorganization process under the Company Reorganization Act on April 15, 1998. The Company was released from its debts including liabilities on guarantees totaling ₩5,482,181 million, and the repayment of the principal of the reorganized debts amounting to ₩1,518,942 million was readjusted to be repaid on an installment basis between 2002 and 2008. The Company pays interest on the debt principal starting from when the reorganization process began on a quarterly basis at the earning rate of the three-year unwaranted corporate bond. Furthermore, the Company provided blank notes and checks as collateral for these reorganized debts.

(*3) One-year Industrial Financial Debentures + 53bp

(*4) Interest rate is 6M EURO Libor + 0.68% ~ 1.1%.

(b) Aggregate maturities of the Company's long-term debt as of December 31, 2007 are as follows:

| | | | | | In millions of Won |
|---------------------|---------------------|---------|-----------------------|------------|--------------------|
| December 31, 2007 | Local currency debt | | Foreign currency debt | Debentures | Total |
| 2008 | ₩ | 25,040 | 11,271 | 414,378 | 450,689 |
| 2009 | | 30,854 | - | 350,000 | 380,854 |
| 2010 | | 70,901 | 362,384 | 614,378 | 1,047,663 |
| 2011 | | 857 | 358,814 | 350,000 | 709,671 |
| 2012 and thereafter | | 56,240 | - | 300,000 | 356,240 |
| | ₩ | 183,892 | 732,469 | 2,028,756 | 2,945,117 |

(16) Other Non-Current Liabilities

Other non-current liabilities as of December 31, 2007 and 2006 are as follows:

| | | | In millions of Won |
|---|------|---------|--------------------|
| | 2007 | | 2006 |
| Advance deposit for sale of land (note 21(f)) | ₩ | 92,297 | - |
| Deposits received | | 16,530 | 15,499 |
| | ₩ | 108,827 | 15,499 |

(17) Leases

(a) The Company entered into sales-leaseback contract for certain used machinery and equipment in 2007. As of December 31, 2007, the gross amount of machinery and equipment and related accumulated depreciation recorded under capital leases are as follows:

| | | In millions of Won |
|-------------------------------|---|--------------------|
| | | 2007 |
| Machinery and equipment | ₩ | 250,000 |
| Less accumulated depreciation | | (7,136) |
| | ₩ | 242,864 |

Depreciation expense related to capital leases for the year ended December 31, 2007 amounts to ₩7,136 million.

(b) Future minimum lease payments under the non-cancelable capital leases as of December 31, 2007 are as follows:

| | | In millions of Won |
|--|---|--------------------|
| Year | | Capital leases |
| Due within a year | ₩ | 90,693 |
| Due after one year through to five years | | 175,952 |
| Total minimum lease payments | | 266,645 |
| Less unearned interest | | (24,263) |
| Less current portion | | (78,416) |
| Present value of non-current portion of net minimum capital lease payments | ₩ | 163,966 |

(18) Assets and Liabilities Denominated in Foreign Currency

Assets and liabilities denominated in foreign currency as of December 31, 2007 and 2006 are summarized as follows:

| | 2007 | | | | 2006 | | | |
|---------------------------------------|---------------------------------|-----------|------------------------------|-----------|---------------------------------|-----------|------------------------------|-----------|
| | Foreign currency (thousands) | | Won equivalent (millions) | | Foreign currency (thousands) | | Won equivalent (millions) | |
| Assets | | | | | | | | |
| Cash and cash equivalents | USD | 84,385 | ₩ | 79,170 | USD | 21,758 | ₩ | 20,225 |
| | EUR | 21,724 | | 30,006 | EUR | 12,076 | | 14,760 |
| Accounts and notes receivable - trade | USD | 483,444 | | 453,568 | USD | 527,205 | | 490,090 |
| | EUR | 137,765 | | 190,289 | EUR | 200,282 | | 244,793 |
| | AED | 407,477 | | 104,078 | AED | 35,093 | | 8,882 |
| | AUD | 18,198 | | 14,974 | AUD | 14,701 | | 10,798 |
| | CAD | 12,759 | | 12,209 | CAD | 16,436 | | 13,168 |
| | GBP | 1,841 | | 3,451 | GBP | 3,768 | | 6,874 |
| Accounts receivable - other | USD | 11,504 | | 10,793 | USD | 7,491 | | 6,964 |
| | EUR | 4,998 | | 6,903 | EUR | 1,937 | | 2,367 |
| | AUD | 9,223 | | 7,589 | AUD | 1,822 | | 1,338 |
| | GBP | 2 | | 3 | GBP | 8 | | 14 |
| Guarantee deposits | USD | 133 | | 125 | USD | 374 | | 348 |
| | | | | 913,158 | | | | 820,621 |
| Liabilities | | | | | | | | |
| Accounts and notes payable - trade | USD | 26,993 | | 25,325 | USD | 18,746 | | 17,426 |
| | JPY | 557,991 | | 4,650 | JPY | 1,395,412 | | 10,910 |
| | EUR | 10,783 | | 14,894 | EUR | 5,802 | | 7,092 |
| | AUD | 928 | | 763 | AUD | 1,520 | | 1,116 |
| | GBP | 205 | | 385 | GBP | 211 | | 385 |
| | SEK | 4,162 | | 610 | SEK | 31 | | 4 |
| | CHF | 26 | | 21 | CHF | 95 | | 72 |
| Accounts and notes payable - other | USD | 47,666 | | 44,720 | USD | 48,570 | | 45,151 |
| | JPY | 518,727 | | 4,323 | JPY | 1,842,382 | | 14,404 |
| | EUR | 19,058 | | 26,324 | EUR | 18,396 | | 22,484 |
| | GBP | 36 | | 67 | GBP | 15 | | 27 |
| | DKK | - | | - | DKK | 1 | | - |
| | CHF | 26 | | 22 | CHF | 1 | | 1 |
| | SEK | 8 | | 1 | SEK | 1 | | - |
| | CAD | 2,707 | | 2,591 | CAD | - | | - |
| | AUD | 11 | | 9 | AUD | 10 | | 7 |
| | HKD | 11 | | 1 | HKD | - | | - |
| Accrued expenses | JPY | 24,859 | | 207 | JPY | 39,667 | | 310 |
| | USD | - | | - | USD | 150,000 | | 139,440 |
| Short-term borrowings | JPY | 3,040,839 | | 25,340 | JPY | 7,254,646 | | 56,719 |
| | USD | 248,820 | | 233,443 | USD | 100,322 | | 93,260 |
| | EUR | 21,000 | | 29,006 | EUR | - | | - |
| Long-term debt | USD | 154,682 | | 145,123 | USD | 287,358 | | 267,128 |
| (including current portion) | EUR | 1,025,000 | | 1,415,792 | EUR | 1,028,800 | | 1,257,441 |
| | JPY | 37,249 | | 310 | JPY | 74,496 | | 582 |
| | | | ₩ | 1,973,927 | | | ₩ | 1,933,959 |

(19) Provision for Warranties and Card Points

Changes in provision for warranties and card points for the years ended December 31, 2007 and 2006 are summarized as follows:

| | In millions of Won | |
|----------------------------------|--------------------|-----------|
| | 2007 | 2006 |
| Net balance at beginning of year | ₩ 703,489 | 724,152 |
| Provision | 205,765 | 246,556 |
| Payment | (258,544) | (267,219) |
| Net balance at end of year* | ₩ 650,710 | 703,489 |

* The provision for card points is ₩5,724 million and ₩3,528 million as of December 31, 2007 and 2006, respectively.

The Company maintains insurance to cover potential product liabilities up to US\$85,000 thousand in North America and Europe and ₩1,000 million in Korea as of December 31, 2007.

(20) Retirement and Severance Benefits

Changes in retirement and severance benefits for the years ended December 31, 2007 and 2006 are summarized as follows:

| | In millions of Won | |
|--|--------------------|-----------|
| | 2007 | 2006 |
| Estimated retirement and severance benefits at beginning of year | ₩ 1,407,626 | 1,522,784 |
| Provision for retirement and severance benefits | 285,676 | 357,508 |
| Transfer-in from associate companies | 640 | 10 |
| Payments | (516,929) | (472,676) |
| Estimated retirement and severance benefits at end of year | 1,177,013 | 1,407,626 |
| Transfer to National Pension Fund | (16,225) | (24,788) |
| Deposit for severance benefit insurance | (741,474) | (851,383) |
| Net balance at December 31, 2007 | ₩ 419,314 | 531,455 |

The Company maintains an employees' severance benefit insurance arrangement with the Samsung Life Insurance Co., Ltd. and others. Under this arrangement, the Company has made a deposit in the amount equal to 63.00% and 60.48% of the reserve balances of retirement and severance benefits as of December 31, 2007 and 2006, respectively. This deposit is to be used to guarantee the required payments to prior employees and accounted for as a reduction of the reserve balance.

(21) Commitments and Contingencies

(a) The Company provides guarantees for certain customers' financing relating to long-term installment sales. The outstanding amount for which the Company has provided guarantee to the respective financial institutions was ₩7,147 million as of December 31, 2007. However, these guarantees are covered by insurance contracts in which the Company is the beneficiary of the claim amount if the customer defaults.

(b) As of December 31, 2007, 32 blank checks, 95 blank promissory notes and two promissory notes totaling ₩1,820 million have been provided as collateral to Standard Chartered First Bank Korea Ltd. and others for the Company's debts (see note 15).

(c) The Company is involved in 25 lawsuits. Claims for alleged damages, which arose in the ordinary course of business total ₩17,753 million as of December 31, 2007. No provision is recorded as of December 31, 2007. Management is of the opinion that the foregoing lawsuits and claims will not have a material adverse effect on the Company's financial position, operating results or cash flows.

(d) The Company is involved in lawsuits pertaining to disputes with the Brazilian shareholders of Asia Motors Do Brasil S.A. (AMB), which was established as a joint venture by Asia Motors with a Brazilian investor. In 2002, the Company, a shareholder of AMB, brought one of the cases to the International Court of Arbitration to settle disputes pursuant to the terms of the contract signed at inception of the joint venture which states that where the business has been adversely affected by a party's failure to comply with the contract terms or other reasons, the matter should be taken before the International Court of Arbitration for settlement and parties shall be held accountable according to the ruling. The case was decided in favor of the Company by the International Court of Arbitration on July 22, 2004. The Company has subsequently written off this investment of ₩14,057 million.

Although the outcome of this case as well as the other 3 lawsuits is not currently predictable, management believes that the resolution of these matters will not have a material adverse effect on the operations or financial position of the Company.

(e) The Company entered into an agreement with its European sales subsidiaries and agents that they would be responsible for the projected costs of dismantling and recycling vehicles sold in their respective countries to comply with the European Parliamentary directive regarding End-of-Life vehicles (ELV).

(f) The Company entered into a contract with Hyundai Powertech Co., Ltd. on , December 10, 2007 to sell a portion of the land located on the Seosan industrial complex currently under construction with estimated completion in 2010. The preliminary contract amount is ₩115,371 million which is subject to change upon completion of the complex when final costs are determined. The Company received down payment amounting to ₩92,297 million recorded as advance deposit for sale of land as of December 31, 2007.

(22) Derivative Instruments

The Company has entered into range forwards and foreign exchange forwards to hedge its exposure to variability in the functional-currency-equivalent cash flows associated with the fluctuation risk of foreign exchange rates. In addition, the Company entered into interest rate and currency swaps to hedge interest rate risks and floating rate foreign currency debt exposures.

Detail of range forwards, foreign exchange forwards and interest rate and currency swaps as of December 31, 2007 are as follows:

| Derivative instrument | Contract amount | | Contract date | Maturity date | Fair value (Won in millions) |
|---------------------------|-----------------|-------------|---------------|---------------|------------------------------|
| Foreign exchange forwards | EUR | 120,000,000 | 2007. 11.19 | 2008. 1. 7 | (2,294) |
| | USD | 820,000,000 | ~ 2007. 12.26 | ~ 2008. 12.29 | (7,913) |
| Swaps | EUR | 21,000,000 | 2007. 09.05 | 2008. 9.12 | 1,797 |
| | USD | 155,000,000 | ~ 2007. 10.23 | ~2010.9.14 | 2,851 |

The Company's estimated period of exposure to the variability of cash flows related to the range forwards and foreign exchange forwards is January 2008 to December 2008. Under the foreign exchange forward contracts, the Company recognized the effective portion of losses on the valuation of the range forwards and foreign exchange forwards amounting to ₩7,888 million as other comprehensive loss, as of December 31, 2007. The Company recognized the ineffective portion of gains on valuation amounting to ₩99 million and losses on valuation amounting to ₩2,418 million in earnings for the year ended December 31, 2007.

As noted above, the fair value of the interest rate and currency swap contracts as of December 31, 2007 was ₩4,648 million of which ₩1,188 million was recorded as other comprehensive gain and the translation gain of ₩3,460 million related to the foreign currency debt was recorded in earnings as loss on valuation for the year ended December 31, 2007.

Detail of range forwards as of December 31, 2006 are as follows:

| Derivative instrument | Contract amount | | Contract date | Maturity date | Fair value (Won in millions) |
|-----------------------|-----------------|------------|---------------|----------------------------|------------------------------|
| Range forwards | EUR | 20,000,000 | 2006. 12.1 | 2007. 2. 7 ~ 2007. 3. 7 | 111 |

Under the range forwards contracts, the Company recognized a valuation gain to ₩111 million in earnings, for the year ended December 31, 2006.

(23) Common Stock

Capital Stock as of December 31, 2007 is summarized as follows:

| Authorized | Issued | Outstanding | Par Value | Won (millions) |
|-------------|-------------|-------------|-----------|----------------|
| 820,000,000 | 347,230,455 | 346,749,691 | ₩ 5,000 | ₩ 1,848,652 |

Under the court-approved reorganization plan on March 30, 1999, ₩5,482,181 million of the Company's debt was forgiven, including its guaranteed obligations, and an additional ₩1,799,999 million of its liabilities was converted into common stock, for which 119,999,932 new shares were issued at ₩15,000 per share.

In addition, on December 7, 2000, a disputed creditor's claim in the amount of ₩714 million was determined by the court to be part of the Company's reorganization plan and it was converted into common stock, for which 142,953 new shares were issued.

In accordance with the takeover contract undertaken with Hyundai Motor Company (representing the Hyundai Motor Consortium), effective December 1, 1998, the Company issued new common stock of 172,431,118 shares amounting to ₩938,656 million. In addition, the Hyundai Motor Consortium acquired 153,000,000 shares amounting to ₩841,500 million for a total ownership of 51 percent as of March 30, 1999.

Financial institutions, whose loans to the Company had been forgiven or converted into the Company's common stock, and Hyundai Motor Consortium were granted rights to subscribe to the registered non-voting preferred stock with a par value of ₩5,000 per share. On December 28, 1998, the financial institutions acquired rights equal to 10 percent of the forgiven debt and liabilities which were converted into new common stock. Also, on December 28, 1998, the Hyundai Motor Consortium acquired rights to the extent that the Consortium shall own up to 51 percent of all the additional preferred shares to be issued. These pre-emptive rights can be exercised at once or several times in the fifth or tenth year from December 28, 1999, the date the court approved the reorganization plan. and the Company shall pay a dividend equal to at least two percent for the preferred shares to be issued for the exercise of the rights. In 2003, the fifth year from December 28, 1999, no pre-emptive rights were exercised. In addition, financial institutions that had invested in Asia Motors and Hyundai Motor Consortium were granted pre-emptive rights under the same conditions as described above.

The Company retired 10 million shares of treasury stock on July 2, 2003, which had been acquired for such retirement purposes based on the decision of the Board of Directors on May 9, 2003. Also, the Company retired 12.5 million shares of treasury stock on May 28, 2004, which had been acquired for ₩136,701 million for such retirement purposes based on the decision of the Board of Directors on March 19, 2004. There are 347,230,455 shares of common stock remaining. Due to these stock retirements, the aggregate par value of issued shares (₩1,736,152 million) differs from the common stock amount.

As of December 31, 2007, 480,764 shares of treasury stock (0.14% of total stock) lost voting rights under paragraph 2 of Article 369 of the Korean Commercial Code.

(24) Capital Surplus

Capital surplus as of December 31, 2007 and 2006 are summarized as follows:

| | In millions of Won | |
|--|--------------------|-----------|
| | 2007 | 2006 |
| Paid-in capital in excess of par value | ₩ 1,580,065 | 1,580,065 |
| Gain on capital reduction | 119,859 | 119,859 |
| Other(*) | 4,659 | 3,920 |
| | ₩ 1,704,583 | 1,703,844 |

(*) Other includes gain from re-issuance of treasury stock.

(25) Retained Earnings

Retained earnings as of December 31, 2007 and 2006 are summarized as follows:

| | In millions of Won | |
|---|--------------------|-----------|
| | 2007 | 2006 |
| Legal reserve | ₩ 42,800 | 42,800 |
| Reserve for technology development | 1,790,000 | 1,750,700 |
| Unappropriated (undisposed) accumulated retained earnings (deficit) | (243,537) | 39,361 |
| | ₩ 1,589,263 | 1,832,861 |

(a) Legal reserve

The Korean Commercial Code requires the Company to appropriate as legal reserve an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 50% of stated capital. The legal reserve may be used to reduce a deficit or transferred to common stock in connection with a free issue of shares.

(b) Reserve for technology development

The Company's appropriated retained earnings for technology development is a voluntary reserve which may be used for purposes other than that for which it was established, under a resolution of a general shareholders' meeting.

(26) Capital Adjustments

Details of capital adjustments as of December 31, 2007 and 2006 are as follows:

| | In millions of Won | |
|--------------------------|--------------------|---------|
| | 2007 | 2006 |
| Treasury stock (note 30) | ₩ (2,877) | (3,603) |
| Stock options (note 30) | 450 | 963 |
| | ₩ (2,427) | (2,640) |

(27) Selling and Administrative Expenses

Details of selling and administrative expenses for the years ended December 31, 2007 and 2006 are as follows:

| | In millions of Won | |
|---|--------------------|-----------|
| | 2007 | 2006 |
| Salaries | ₩ 400,228 | 389,481 |
| Provision for retirement and severance benefits | 83,751 | 72,393 |
| Other employee benefits | 61,608 | 50,838 |
| Sales promotion | 280,204 | 288,235 |
| Travel | 15,194 | 15,888 |
| Communications | 7,804 | 8,002 |
| Utilities | 7,401 | 7,450 |
| Taxes and dues | 7,117 | 6,933 |
| Rent | 16,671 | 18,693 |
| Depreciation | 42,110 | 48,387 |
| Amortization of intangible assets | 1,181 | 1,119 |
| Repairs and maintenance | 4,882 | 4,787 |
| Advertising | 66,096 | 97,367 |
| Freight | 35,284 | 34,705 |
| Supplies and stationery | 2,060 | 2,369 |
| Commissions and fees | 122,046 | 105,346 |
| Education and training | 3,921 | 4,084 |
| Ordinary research and development | 204,294 | 190,568 |
| Overseas marketing | 280,870 | 406,776 |
| Export expenses | 495,961 | 551,283 |
| Warranty expenses | 271,362 | 325,111 |
| Bad debt expenses | - | 2,924 |
| Miscellaneous | 3,941 | 4,513 |
| | ₩ 2,413,986 | 2,637,252 |

(28) Income Taxes

(a) The Company is subject to a number of income taxes on taxable income at the following nominal tax rates:

| Taxable income | Normal tax rate |
|--------------------|-----------------|
| Up to ₩100 million | 14.30% |
| Over ₩100 million | 27.50% |

(b) The components of income tax expense for the years ended December 31, 2007 and 2006 are summarized as follows:

| | In millions of Won | |
|----------------------------|--------------------|---------|
| | 2007 | 2006 |
| Current | ₩ 17,080 | 12,274 |
| Deferred | (6,284) | 22,721 |
| Prior year tax adjustments | 609 | (1,119) |
| Income tax charge | ₩ 11,405 | 33,876 |

(c) The charge (benefit) for income taxes calculated by applying statutory tax rates to the Company's taxable income for the year differs from the actual charge (benefit) in the statement of income for the years ended December 31, 2007 and 2006 for the following reasons:

| | In millions of Won | |
|--|--------------------|----------|
| | 2007 | 2006 |
| Charge (benefit) for income taxes at nominal tax rates | ₩ 6,866 | 20,120 |
| Tax effects of permanent differences, primarily entertainment expenses in excess of tax limit | (64,669) | 286 |
| Investment tax credit | (24,356) | (78,039) |
| Adjustment of prior year tax return | (609) | 739 |
| Additional tax payment(*1) | 18,003 | - |
| Decrease in deferred income tax liabilities resulting from equity in earnings of equity method accounted investees (*2) | 76,170 | 90,770 |
| Actual charge (benefit) for income taxes | ₩ 11,405 | 33,876 |

(*1) The Company was subject to a special tax investigation by the National Tax Service during 2007 related to fiscal years 2001 to 2006, resulting in additional tax payments amounting to ₩18,003 which is included in income tax payable as of December 31, 2007.

(*2) Under the Corporate Income Tax Act Article 18 paragraph 2, a certain portion of dividend income is not taxable. Therefore, certain portions of equity in net earnings of equity method accounted investees were considered permanent differences in estimating deferred tax assets (liabilities). Effective January 1, 2006, non-taxable dividend income is excluded from equity in income of equity method accounted investees in estimating deferred income tax liabilities.

(d) The effective tax rates, after adjustments for certain differences between amounts reported for financial accounting and income tax purposes, were approximately 45.7% and 46.3% in 2007 and 2006, respectively.

(e) The tax effects of temporary differences that result in significant portions of deferred tax assets and liabilities at December 31, 2007 and 2006 are presented below:

| | In millions of Won | |
|--|--------------------|---------|
| | 2007 | 2006 |
| Deferred tax assets | | |
| Allowance for doubtful accounts in excess of tax limit | ₩ 59,929 | 59,688 |
| Bad debts written off | 70,073 | 72,461 |
| Dividend income | 2,130 | 2,130 |
| Loss on impairment of investments | 1,708 | 10,053 |
| Accrued expenses | - | 38,346 |
| Provision for warranties | 178,945 | 193,227 |
| Loss on impairment of property, plant and equipment | - | 6,876 |
| Net operating loss carryforward | 142,888 | 5,324 |
| Carryforwards of unused tax credits | 388,113 | 363,415 |
| Tax reserve applicable to equity | 48,373 | 51,800 |
| Other | 1,578 | 1,687 |
| Total deferred tax assets | 893,737 | 805,007 |
| Deferred tax liabilities | | |
| Deferred foreign exchange translation gain, net | 522 | 1,434 |
| Accumulated depreciation | 2,564 | 935 |
| Accrued income | 5,161 | 5,065 |
| Equity in earnings of equity method accounted investees, net | 455,999 | 370,440 |
| Gain on valuation of derivatives | - | 31 |
| Amortization on development costs | 89 | 557 |
| Tax reserve applicable to equity | 3,063 | 4,581 |
| Total deferred tax liabilities | 467,398 | 383,043 |
| Net deferred tax asset | ₩ 426,339 | 421,964 |

(f) Deferred tax assets have been recognized because it is probable that future profit will be available against which the Company can utilize the related benefit.

(g) Deductible temporary differences of which deferred tax assets have not been recognized as of December 31, 2007 and 2006 amounted to ₩800,390 million and ₩594,508 million, respectively.

(h) The Company did not recognize a deferred tax liability in the amount of ₩22,407 million and ₩21,952 million arising from the taxable temporary differences associated with equity method accounted investments as of December 31, 2007 and 2006, respectively, since it is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The accumulated temporary differences as of December 31, 2007 and 2006 do not include temporary differences of ₩258,945 million and ₩261,897 million, respectively, related to the gain on the revaluation of land, which may not be disposed of in the foreseeable future.

(i) The deferred tax assets and liabilities that were directly charged or credited to capital adjustments as of December 31, 2007 are as follows:

| | | | In millions of Won |
|---|-----------------------|-----------------------------------|--------------------|
| | Temporary differences | Deferred tax assets (liabilities) | |
| Change in fair value of available-for-sale securities | ₩ (35) | (10) | |
| Unrealized holding loss on equity method accounted investments, net | 164,801 | 45,320 | |
| | ₩ 164,766 | 45,310 | |

(i) In accordance with SKAS No. 16, the deferred tax amounts should be presented as a net current asset or liability and a net non-current asset or liability. In addition, the Company is required to disclose aggregate deferred tax assets (liabilities). As of December 31, 2007, details of aggregate deferred tax assets (liabilities) are as follows:

| | | | | | In millions of Won |
|--|---|---|-----------------------------------|-------------|--------------------|
| | | Temporary differences at December 31, 2007 | Deferred tax assets (liabilities) | | |
| | | | Current | Non-current | |
| Assets | | | | | |
| Allowance for doubtful accounts | ₩ | 217,924 | 53,543 | 6,386 | |
| Bad debts written off | | 254,812 | - | 70,073 | |
| Dividend income | | 7,745 | - | 2,130 | |
| Loss on impairment of investments | | 313,512 | - | 1,708 | |
| Provision for warranties | | 650,710 | 68,968 | 109,977 | |
| Carryforwards of unused tax credits | | 369,979 | 63,077 | 325,036 | |
| Net operating loss carryforward | | 519,590 | - | 142,888 | |
| Tax reserve applicable to equity | | 175,962 | - | 48,373 | |
| Others | | 5,737 | 824 | 754 | |
| | | 2,515,971 | 186,412 | 707,325 | |
| Liabilities | | | | | |
| Accumulated depreciation | | (9,323) | - | (2,564) | |
| Deferred foreign exchange translation gain, net | | (1,899) | - | (522) | |
| Accrued income | | (18,769) | (5,161) | - | |
| Equity in earnings of equity method accounted investees, net | | (1,185,144) | - | (455,999) | |
| Amortization on development costs | | (321) | - | (89) | |
| Tax reserve applicable to equity | | (72,623) | - | (3,063) | |
| | | (1,288,079) | (5,161) | (462,237) | |
| Net deferred tax asset | ₩ | 1,227,892 | 181,251 | 245,088 | |

(29) Earnings Per Share

Earnings per share of common stock for the years ended December 31, 2007 and 2006 are calculated as follows:

(a) Basic earnings per share are calculated by dividing net income by the weighted-average number of shares of common stock outstanding.

| In Won, except number of shares | | |
|--|------------------|----------------|
| | 2007 | 2006 |
| Net income | ₩ 13,562,942,696 | 39,336,697,185 |
| Weighted-average number of common shares Outstanding | 346,635,383 | 346,522,839 |
| Earnings per share | ₩ 39 | 114 |

(b) Diluted earnings per share are calculated by dividing net income, as adjusted assuming all potentially dilutive stock options have been exercised, by the weighted-average number of common and common equivalent shares outstanding.

| In Won, except number of shares | | |
|--|------------------|----------------|
| | 2007 | 2006 |
| Net income | ₩ 13,562,942,696 | 39,336,697,185 |
| Stock option compensation | - | - |
| | 13,562,942,696 | 39,336,697,185 |
| Weighted-average number of common shares outstanding | 346,635,383 | 346,522,839 |
| Weighted-average number of common equivalent shares outstanding* | 75,227 | 186,786 |
| Weighted-average number of common and common equivalent shares outstanding | 346,710,610 | 346,709,625 |
| Diluted earnings per share in Won | ₩ 39 | 113 |

*2007: $[(105,048 - (105,048 \times 8,200 \div 12,185)) \times (365/365)] + [16,256 - (16,256 \times 5,500 \div 12,185) + 105,030 - (105,030 \times 8,200 \div 12,185)] \times (344/365)$

2006: $[16,256 - (16,256 \times 5,500 \div 18,335) + 210,078 - (210,078 \times 8,200 \div 18,335)] \times (365/365) + [6,667 - (6,667 \times 5,500 \div 18,335) + 105,019 - (105,019 \times 8,200 \div 18,335)] \times (345/365)$

For the purpose of calculating the weighted-average number of common equivalent shares outstanding, the Company assumed that ordinary shares were issued upon exercise of the dilutive stock options at the average market price of the ordinary shares during the period. The difference between the number of ordinary shares issued and the number of ordinary shares that would have been issued at the average market price (₩12,185 and ₩18,335 for the year ended 2007 and 2006, respectively) of ordinary shares during the period is considered as an issue of ordinary shares for no consideration.

(30) Stock Options

The Company granted stock options to its executive officers and directors in accordance with the stock option plan approved by the Board of Directors. The details of the stock options granted are as follows:

| Won (millions, except shares) | | | | |
|-------------------------------|-------------------------|-----------------------|-------------------------|-----------------------|
| | 1st Grant | | 2nd Grant | |
| | Number of shares | Compensation expenses | Number of shares | Compensation expenses |
| Granted | 950,000 | ₩ 3,735 | 695,000 | ₩ 2,974 |
| Cancelled | (31,655) | (125) | (379,903) | (1,614) |
| Exercised | (918,345) | (3,610) | (210,049) | (910) |
| Remaining | - | ₩ - | 105,048 | ₩ 450 |
| Grant date | March 17, 2000 | | February 20, 2003 | |
| Vesting period | 2 years from grant date | | 2 years from grant date | |
| Exercise period | 2003.3.18 ~ 2008.3.17 | | 2006.2.20 ~ 2011.2.19 | |
| Exercise price | ₩ 5,500 | | ₩ 8,200 | |

If all stock options, which require at least two-years of continuous service, are exercised, new shares or treasury stock will be issued in accordance with the decision of the Board of Directors. The Company calculates the total compensation expense using the option-pricing model.

The numbers of exercisable stock options for the second grants are 105,048 shares. In addition, among the stock options granted during the current period, 16,256 shares of the first grant option and 105,030 shares of the second grant option were exercised, so that the Company issued the corresponding number of its treasury shares. There are no compensation expense incurred for the years ended December 31, 2007 and 2006 as the stock options are fully vested.

(31) Comprehensive Income

Comprehensive income for the years ended December 31, 2007 and 2006 was as follows:

| | In millions of Won | |
|---|--------------------|---------|
| | 2007 | 2006 |
| Net income | ₩ 13,563 | 39,337 |
| Change in fair value of available-for-sale securities, net | (5,595) | (5,098) |
| Unrealized holding gain on equity method accounted investments | 50,491 | (4,903) |
| Unrealized holding loss on equity method accounted investments | 32,036 | 51,784 |
| Effective portion of changes in fair value of cash flow hedges, net | (6,700) | - |
| Comprehensive income | ₩ 83,795 | 81,120 |

(32) Non-Cash Investing and Financing Activities

Significant non-cash investing and financing activities for the years ended December 31, 2007 and 2006 are summarized as follows:

| | In millions of Won | |
|---|--------------------|---------|
| | 2007 | 2006 |
| Construction-in-progress transferred to property, plant and equipment | ₩ 435,331 | 746,298 |

(33) Added Value

The components of manufacturing costs and selling and administrative expenses which are necessary in calculating added value at December 31, 2007 and 2006 are as follows:

| In millions of Won | | |
|---|-------------|-----------|
| | 2007 | 2006 |
| Salaries | ₩ 1,836,953 | 1,797,775 |
| Retirement allowance and severance benefits | 285,676 | 357,508 |
| Other employee benefits | 329,597 | 310,575 |
| Rent | 16,955 | 19,905 |
| Depreciation | 454,123 | 460,149 |
| Taxes and dues | 26,299 | 26,097 |
| | ₩ 2,949,603 | 2,972,009 |

(34) Geographic Segment Information

The Company conducts business globally and is managed geographically. The following table provides information for each geographical segment for the years ended December 31, 2007 and 2006:

| In millions of Won | | |
|--------------------------|--------------|------------|
| | 2007 | 2006 |
| Domestic sales | ₩ 4,852,075 | 4,867,130 |
| Export sales | | |
| North America | 4,879,604 | 5,144,229 |
| Europe | 2,860,028 | 4,295,839 |
| Asia | 598,200 | 745,670 |
| The Middle East / Africa | 1,197,637 | 928,415 |
| Middle and South America | 778,745 | 594,146 |
| China | 245,752 | 338,905 |
| Other | 536,501 | 525,576 |
| | ₩ 15,948,542 | 17,439,910 |



Independent Accountants' Review Report on Internal Accounting Control System

English Translation of a Report Originally
Issued in Korean

To the President of Kia Motors Corporation:

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of Kia Motors Corporation (the "Company") as of December 31, 2007. The Company's management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of IACS, the Company's management stated: "Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2007, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee."

We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether Report on the Operations of Internal Accounting Control System is free of material misstatement. Our review consists principally of obtaining an understanding of the Company's IACS, inquiries of company personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

A company's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, however, IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that Report on the Operations of Internal Accounting Control System as of December 31, 2007 is not prepared in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2007. We did not review the Company's IACS subsequent to December 31, 2007. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

KPMG Samjong Accounting

February 18, 2008

:: Notice to Readers

This report is annexed in relation to the audit of the non-consolidated financial statements as of December 31, 2007 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.



Report on the Operations of Internal Accounting Control System

To the Board of Directors and Audit Committee of Kia Motors Corporation:

I, as the Internal Accounting Control Officer ("IACO") of Kia Motors Corporation (the "Company"), have assessed the status of the design and operations of the Company's Internal Accounting Control System ("IACS") for the year ended December 31, 2007.

The Company's management including IACO is responsible for the design and operations of its IACS. I, as the IACO, have assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external purposes. I, as the IACO, applied the IACS Framework for the assessment of design and operations of the IACS.

Based on the assessment of the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2007, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee.

Internal Accounting Control Officer

Ahn, Hee Bong

Chief Executive Officer

Cho, Nam Hong

January 25, 2008

IR Information

IR Activities in 2007

| | |
|-----------|--|
| January | Conference for 2006 Operating Results and 2007 Business Plan |
| February | Non-Deal Road Show in US/Europe/Asia |
| March | Annual General Shareholder's Meeting and Annual Report Release (Korean) Investors Conference in Seoul by Citigroup |
| April | Investors Conference in New York by Morgan Stanley European Operations(Plant/Sales Subsidiary/R&D Center) Visit (for Credit/Equity Analysts) Annual Report Release (English) |
| May | Conference for 1st Quarter Operating Results Non-Deal Road Show in US/Europe/Asia |
| June | cee'd Test-drive (for Analysts, Institutional Investors) |
| July | Conference for 1st Half Operating Results |
| September | Investors Conference in New York by Deutsche |
| October | Conference for 3rd Quarter Operating Results Investors Conference in Singapore by Woori Securities |
| November | Non-Deal Road Show in US/Europe/Asia Investors Conference in Seoul by UBS Corporate Credit Ratings Annual Review (Moody's, Standard & Poor's) |
| December | Year-end Small Group Meetings with Analysts |

Shareholder Structure (at December 31, 2007/2006 ; %)

| | | | | | | | |
|------|-----------------------|-----------------|----------|------|----------------------------------|-------------------|--------|
| 2007 | 38.67 | 0.00 | 1.99 | 7.12 | 9.74 | 16.11 | 26.37 |
| 2006 | 38.67 | 1.26 | 1.99 | 7.25 | 10.10 | 22.53 | 18.20 |
| | Hyundai Motor Company | Hyundai Capital | ES Chung | ESOP | Domestic Institutional Investors | Foreign Investors | Others |
| | Hyundai Motor Company | | | | | | |

Kia Motors Share Price in 2007



In 2007, the benchmark KOSPI index soared 32.3% to end at 1,897.13 points, compared to the end of last year. Supported by the strong global stock market, KOSPI exceeded 2,000 points showing upward trend thanks to improvement in corporate performance, strong China-related stocks, and abundant capital in stock market. However, in the second half of the year, due to the widespread volatility in global stock market stemming from subprime mortgage crisis in the U.S., KOSPI also swung between gains and losses.

Stock prices of Kia Motors have increased steadily in the first half of 2007. However, in the second half of the year, the stock prices turned to downturn and closed at ₩10,100, down by 24.9% from the previous year. Kia turned to a surplus in the second quarter of 2007 after recording deficit since the second quarter of 2006. But it turned into a deficit again in the third quarter with weak stock prices due to the delay in production during strike. Increased volatility in global stock market forced foreign investors to go on a selling spree in Korean stock market in 2007 and the proportion of Kia shares owned by foreigners has decreased from 22.5% at the end of 2006 to 16.1% at the end of 2007.

Kia Motors recorded operating deficit in 2007 following the previous year. However thanks to continuous efforts to reduce costs, deficit has fallen compared to the previous year. Kia's profitability is expected to improve as competitive new cars will hit the market in 2008 along with innovation in cost structure. Kia conveyed mid- and long-term growth momentum through continuous communication with investors at road shows, conferences and IR meetings even when it showed stagnant performance. As a result, many investors at home and abroad now buy Kia's stocks, paying keen attention to Kia's turnaround story after Kia announced in January 2008 that it recorded surplus in the fourth quarter of year 2007. So, stock price of Kia will recover in line with enhancement in performance.

Five Year Summary

(Units, Korean won in millions)

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|--------------------------------------|------------|------------|------------|------------|------------|
| Sales Volume | 1,114,451 | 1,140,734 | 1,105,841 | 1,011,429 | 858,697 |
| Domestic | 271,809 | 269,575 | 265,825 | 250,643 | 319,795 |
| Export | 842,642 | 871,159 | 840,016 | 760,786 | 538,902 |
| Revenue | 15,948,542 | 17,439,910 | 15,999,356 | 15,257,742 | 12,839,881 |
| Domestic | 4,852,075 | 4,867,130 | 4,471,757 | 4,241,228 | 5,126,358 |
| Export | 11,096,467 | 12,572,780 | 11,527,599 | 11,016,514 | 7,713,523 |
| Operating Income | -55,404 | -125,291 | 74,002 | 513,063 | 805,537 |
| Income before Income Taxes | 24,968 | 73,213 | 689,405 | 840,078 | 937,526 |
| Net Income | 13,563 | 39,337 | 680,904 | 662,026 | 752,857 |
| Assets | 12,853,763 | 12,106,605 | 11,241,785 | 10,685,879 | 10,343,490 |
| Current Assets | 3,232,967 | 3,122,252 | 2,915,901 | 3,122,169 | 3,251,294 |
| Non-current Assets | 9,620,796 | 8,984,353 | 8,325,884 | 7,563,710 | 7,092,196 |
| Liabilities | 7,778,421 | 6,858,849 | 5,989,417 | 5,721,456 | 5,828,638 |
| Current Liabilities | 4,196,287 | 4,103,104 | 3,479,435 | 3,620,385 | 3,834,658 |
| Non-current Liabilities | 3,582,134 | 2,755,745 | 2,509,982 | 2,101,071 | 1,993,980 |
| Shareholder's Equity | 5,075,342 | 5,247,756 | 5,252,368 | 4,964,423 | 4,514,852 |
| Capital Stock | 1,848,652 | 1,848,652 | 1,848,652 | 1,848,652 | 1,848,652 |
| Capital Surplus | 1,704,583 | 1,703,844 | 1,703,011 | 1,701,955 | 1,700,956 |
| Capital Adjustments | -2,427 | -2,640 | -2,704 | -3,033 | -4,217 |
| Accumulated other comprehensive loss | -64,729 | -134,961 | -176,744 | 96,426 | 48,009 |
| Retained Earnings | 1,589,263 | 1,832,861 | 1,880,153 | 1,320,423 | 921,452 |



Board of Directors (As of March 21, 2008)

1. Mong-Koo Chung

- Currently, Chairman & CEO, Kia Motors Corp.
- Ambassador for International Economy & Trade
- Chairman for KSA (Korean Standards Association)

2. Ik-Hwan Kim

- Currently, Vice Chairman & CEO, Kia Motors Corp.
- President & CEO, Kia Motors Corp.

3. Nam-Hong Cho

- Currently, President & CEO, Kia Motors Corp.
- Senior Executive Vice President, Kia Motors Corp. Hwasung Plant Manager

4. Euisun Chung

- Currently, President, Kia Motors Corp.
- Head of Kia Motors Planning Office
- Deputy Head of Hyundai-Kia Planning Division

5. Yul Choi

- Currently, Executive Director of the Korea Green Foundation
- Co-Chairman of the Korean Federation for Environmental Movement
- Director General for the Korean Federation for Environmental Movement

6. Dong-Sung Cho

- Currently, Professor of Business Administration at Seoul National University
- Dean of the College of Business Administration, Seoul National University
- Regional Chairperson of the Academy of International Business

7. Keon-Soo Shin

- Currently, Attorney at law, KCL (Kim, Choi & Lim)
- Chief Prosecutor, Criminal Department, Seoul High Prosecutor's Office
- Chief Prosecutor, Public Trial Department, Seoul High Prosecutor's Office

8. Hyun-Kook Hong

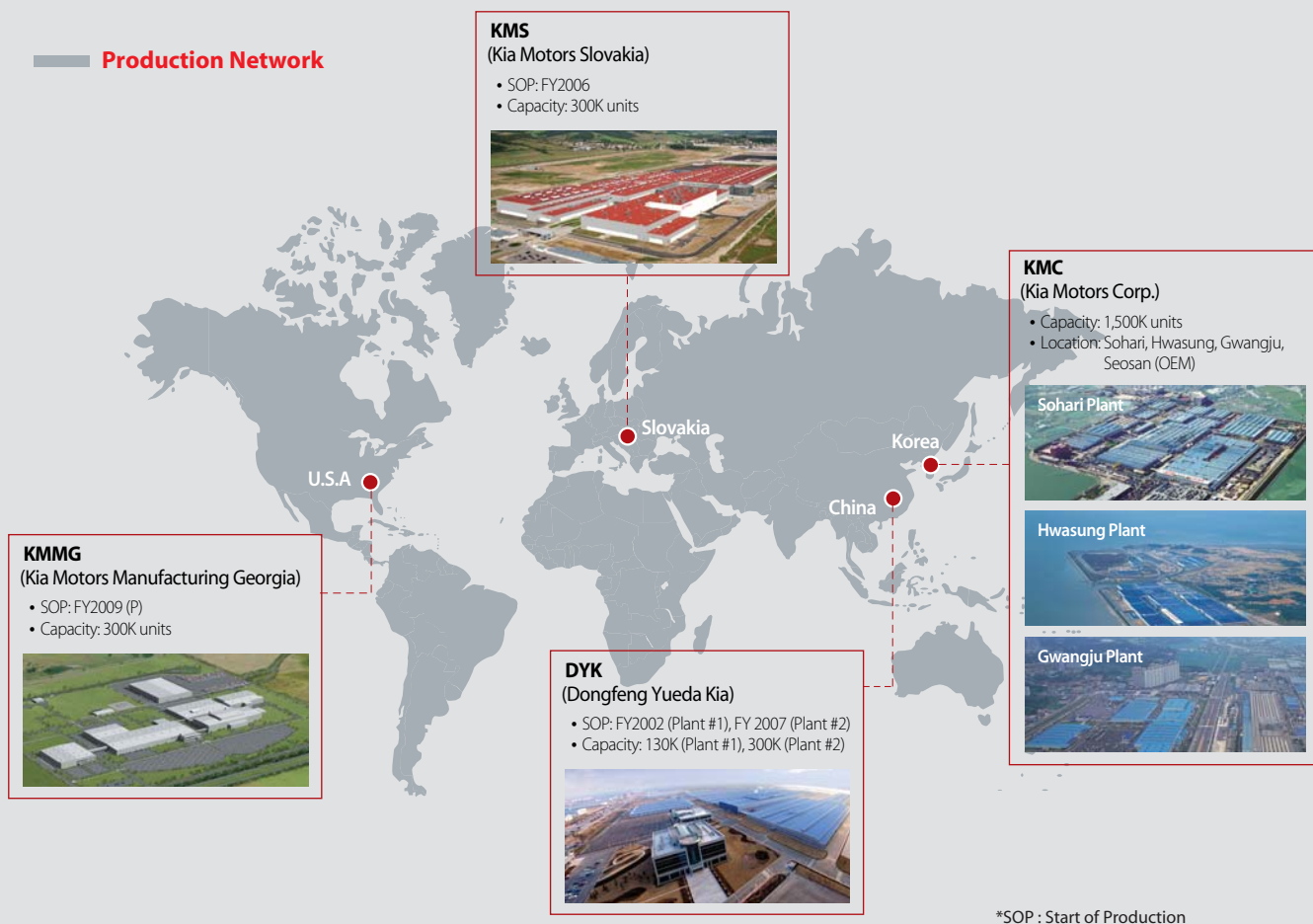
- Currently, Vice Chairman, Gaduk Tax Consulting Associates
- An Auditor of NTS (National Tax Service)
- Director of Regional NTS in Daegu

9. Doo-Hee Lee

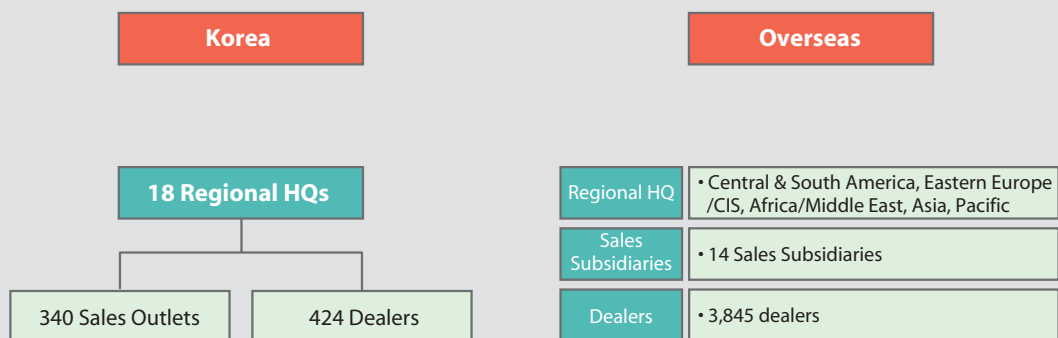
- Currently, Professor of Business Administration at Korea University
- Currently, Dean of the Institute of International Education, Korea University
- Currently, President of APAIE (Asia-Pacific Association for International Education)

Global Network (As of Dec 2007)

Production Network



Sales Network



*Note : 14 Sales Subsidiaries (USA, Canada, Europe HQ, Central Europe HQ, Germany, UK, Ireland, Spain, France, Sweden, Belgium, Poland, Australia, New Zealand)

Kia Motors IR Team

| Title | Name | E-mail |
|-------------------|-----------------|----------------------|
| Head of IR | Dong-Won Kang | dwkang@kia.co.kr |
| Manager | Hwan-Wook Lee | optman@kia.co.kr |
| Manager | Chung-Sik Min | charliemin@kia.co.kr |
| Assistant Manager | Sung-Yeon Hwang | yeon@kia.co.kr |
| Associate | Ji-Eun Ryu | JER@kia.co.kr |



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